People-oriented Panasci sees 'no reason to change'

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tivities at NACDS, it's going to be a busy year for me," he said. "But with the confidence I have have in our staff and employees, it's something I'm looking forward to greatly."

In an interview with *Drug Store News*, just prior to the association's gala 50th anniversary convention, Panasci predicted few changes for NACDS under his leadership.

"Basically, I think it will be a year of more of the same types of things we've seen in the past," he said. "My predecessors, along with Bob Bolger and his staff, have really done a great job in developing this organization into what it is today. There's certainly no reason to change a good thing."

Pharmacy issues a priority

However, pharmacy issues and the need to involve more small chains in NACDS activities will be major priorities during the year, he said.

Panasci believes his background as a registered pharmacist will add further credibility to the association's political and legislative endeavors during the next 12 months.

"Certainly a registered pharmacist who is the chief executive officer of a major drug store chain has more credibility testifying before a Congressional committee on pure pharmacy issues than does a nonpharmacist," he said. "This, I hope, will be one of my major contributions to NACDS this year."

Crimes against pharmacists, copay provisions of new Health Care Finance Administration regulations and model legislation for the computerization of Rx reimbursement programs at the state level are among key pharmacy issues Panasci expects to address during the coming year.

In addition, Panasci said he hopes to reinforce NACDS' commitment to working with other pharmacy-related groups and associations for the betterment of the entire industry.

The shift in health care regulations from the Federal to state level under the Reagan Administration also reinforces the need for cooperation between NACDS and state and regional pharmaceutical groups, he said.

Panasci wholeheartedly endorses NACDS' preliminary investigation of an annual trade show to better serve existing and potential member chains.

"Many chains, both large and small," he said, "do not now belong to the Associated or Affiliated groups, and do not attend NACDS' annual merchandising, cosmetics or pharmaceutical conferences. I definitely think a trade show is feasible for NACDS, and I think it can be done without damaging the important role both Associated and Affiliated groups now play. A trade show is an income-producing event that should probably be considered by every association."

Panasci, who founded the first Fay's Drug store 25 years ago in the Syracuse suburb of Fairmount, predicts an extremely bright future for drug store chains, especially small, regional chains.

"This is still a very growth-oriented industry," he said, "and I see several good years ahead before it really becomes mature.

Computers score A + in Eckerd Drug test

Continued from page 1

are expected as the market matures. Eckerd eventually expects to reap $3 in software sales for each $1 in hardware sales.

And Eckerd expects the market to continue to grow. In 1982, home computers generated $1.2 billion in sales, a figure that is expected to reach $6 billion by 1985. In 1982, the consumer market grew 20%.

In Houston, the software market turned out to be seasonal, with the household budget program especially popular before income taxes were due.

Also popular was the Munch Man game cartridge. Educational software for older students were more popular than cartridges directed at preschool age youngsters.

The profile developed by Eckerd of the typical computer consumer is a person who is married, 43 years old, lives in the suburbs and has a family income of at least $23,000.

However, the 30- to 39-age group accounted for 42% of the business.

The demographics broke down this way: 91% were married, 86% had family incomes of $20,000 and an average of two children, 26% had home video systems, 22% owned video cassette recorders and 2% owned video disk systems.

The home computer systems were in 3- to 4-ft. displays in the front of the stores. "The displays sold themselves," said one Eckerd executive.

Eckerd is taking advantage of Texas Instruments' mobile trainers, who go over various aspects of the computer business with Eckerd's front-end clerks and assistant managers.

The Texas Instruments trainers call on every store carrying the product.

The manufacturer also has an 800 telephone number displayed at the point-of-purchase that customers can dial if they have questions about the computers.

Convenience foods to debut at Pay 'n Save

Continued from page 1

as milk and eggs, meat, frozen foods, snack products and dry groceries. Erickson characterized the assortment as "7-Eleven-type."

At presstime, neither an advertising campaign to launch the department nor what it will be called had been finalized. After the meeting chairman M. Lamont Bean quipped to *Drug Store News* that if he didn't choose a name shortly, he was worried they might be called "Monte's Market."

Bean outlined for *DrSN* the purpose of the test: "This is not an attempt to get back at the supermarkets. It is an attempt to organize our grocery items which currently don't have specific shelf space." Ultimately, he said, the departments are expected to generate increased store traffic.

The expanded food program marks the debut of beer and wine sales in Pay 'n Save's Washington stores, although alcoholic beverages have been sold in the chain's California and Hawaii stores for several years. Bean asserted that beer and wine sales "are an integral part of the whole concept."

Erickson noted the test stores had extra floor space, and so it was unnecessary to eliminate any sku's or change layout to launch the program.

Chains use ads to beat economy

Continued from page 7

additional 20% from $4.1 million to $3.27 million. Hook's TV expenditures were down 6% from $1.2 million to $1.1 million.

Thrifty, which spends the second highest amount behind Eckerd, increased its TV advertising 18% from $2.9 million to $3.5 million. CVS, ranked fifth in TV advertising, allocated $2.2 million last year, up 20% from the $1.6 million it spent in 1981.

Collectively, the top 15 drug chain TV advertisers spent $35 million in 1982, a jump of 35% over 1981. Together, they account for more than 75% of the total amount of advertising dollars spent by drug chains.

Newspaper inserts and direct-mail circulars continue to be the most widely used forms of advertising by most drug retailers.

BLAIREX®
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The reason is perfectly clear.

It's perfectly clear why you should stock Blairex hard lens cleaner. It's the perfectly clear way Blairex cleans. There's no better cleaner on the market. Blairex quickly and easily cuts through the stubborn residue the others leave behind. Like finger oil, make-up, hair spray and salt. In fact, we're so confident that Blairex is better, we guarantee it on every package. If your customers are ever less than 100% satisfied, we'll refund the entire purchase price. No questions asked.

Here's another clear reason to stock Blairex.

Now when you place an order for a dozen bottles of Blairex hard lens cleaner, we'll send you 24 sample-size tubes FREE. It's the perfect way to introduce your customers to the Blairex difference.

Blairex hard lens cleaner. It's clearly better.

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PHARMACY

Rxman bonuses keyed to duties, performance

NEW YORK—How do directors of pharmaceutical services motivate pharmacists who aren't interested in moving up the management ladder to become store managers?

Executives from some of the nation's largest drug chains are grappling with just such a question in an effort to decrease staff turnover, improve morale and increase productivity.

To find out what solutions are most effective, *Drug Store News* contacted chain executives within the drug store industry.

Although those interviewed did not want to be quoted, a great deal of background information was compiled on different types of bonus arrangements offered by chains. And it was determined that the retail drug industry uses a wide variety of reimbursement techniques to sweeten pharmacists' compensation.

One common attribute that virtually all such programs have is a link between performance and payment. Or as one director stated, "We know what needs to be accomplished, so we gear our bonuses to achieve those goals."

Previous surveys revealed approximately 50% of all retail pharmacists receive some form of bonus. But such arrangements almost always focus on the attainment of specific objectives—sales volume, gross profit maintenance, operating profit percentage and payroll hours.

Generally, two types of bonus plans are offered by those drug chains which grant employee pharmacists a bonus program. And each type hinges on pharmacists' responsibilities or performance.

For example, pharmacists with responsibility outside the prescription department—for OTC drug departments for example—may receive a bonus that is linked to the department's sales, gross profit and operating profit. Under such a program, inventory control and shrink become extremely important to the pharmacist, since both affect the gross profit and operating profit components of the bonus plan.

Other chains add a different wrinkle to their programs. Personnel payroll hours required to operate the department are budgeted by week, and bonus amounts are calculated when the department's payroll remains within preassigned budgeted parameters.

For example, if payroll hours were to exceed 10% of a budgeted amount without a corresponding increase in sales, then that component of the bonus plan would be forfeited. If payroll hours exceeded 5% of some budgeted number of hours, then 25% of a portion of the bonus would be reimbursed. But if payroll hours were right on budget, perhaps 50% of the bonus would be paid.

Other chains' bonus programs are based strictly on productivity. Pharmacists working in the busiest prescription departments receive correspondingly larger bonuses than their counterparts in less hectic settings. This is perhaps the easiest system to administer, but it doesn't provide incentives for improved inventory control or payroll hours. In fact, it provides an incentive to stock as much inventory as possible.

This bonus program may also provide a minimum bonus payment as a baseline or guarantee, say, $10 to $20 a week. If a pharmacy's prescription volume suddenly spurts ahead, pharmacists' bonuses are reviewed and upgraded on a quarterly basis.

Under the terms of this program, pharmacists receive their bonuses as a flat percentage of script volume.

Michigan Rx survey: salaries up

LANSING, Mich.—Despite hard economic times, pharmacists in Michigan enjoyed higher salaries last year, but the growth was not evenly distributed among chain, community and hospital pharmacists.

That's the conclusion of the 14th annual salary survey conducted by the Michigan Pharmacists Association among all licensed practicing pharmacists in the state.

The survey was completed by 700 pharmacists (a 10% response rate) during December 1982.

Overall, chain pharmacists reported a 3% gain in weekly base pay, from $503 in 1981 to $518 in 1982. During the same period, community and hospital pharmacists' average base salary advanced 2% (to $463) and 7% (to $591), respectively.

Directors of hospital pharmacy departments were the primary beneficiaries of increased weekly wages. They recorded the largest average weekly salary advances and the greatest percentage gain of any pharmacists. Salaries for hospital pharmacy directors advanced 9% to an average of $658 per week, while their staffers averaged $560 for a gain of 6% over last year.

Staffers at chain pharmacies received $495, up 4%, and managers of chain pharmacy departments received $543 for an advance of 2%.

Community pharmacists, on the other hand, averaged $441 per week and reported no increase in pay over 1981. But pharmacist managers of community outlets reported a 7% gain, to $521 per week.

Overtime compensation—either time-and-a-half, comp time (time off), hourly pay (straight time), or some other form of compensation was reported for 73% of the overall sample.

A base salary adjusted for cost of living was noted by 27% of the sample.

According to MPA, the survey indicates that job stability tends to be rewarded.

Reimbursement varies by practice setting

	Chain		Commmunity		Hospital	
	Avg. salary	Avg. hours	Avg. salary	Avg. hours	Avg. salary	Avg. hours
Total	$516	42.1	$463	41.3	$591	40.2
• **Manager/ director**	543	42.6	521	42.4	658	40.4
• **Staff**	495	41.6	441	40.7	560	40.0

Source: MPA annual salary survey

TINACTIN® IS THE MOST RECOMMENDED ATHLETE'S FOOT REMEDY.

Since its conversion from Rx to OTC status, Tinactin has become the number one recommendation of doctors, podiatrists and especially pharmacists like you.

Tinactin is the one that has proven itself time and time again. It not only kills the fungi that cause athlete's foot, but does so without irritation. Tinactin relieves painful burning, itching and soreness within 24 hours. And Tinactin Powder contains the only ingredient clinically proven to prevent reinfection with daily use.

So, recommend the athlete's foot remedy that has stood the test of time year after year, foot after foot—Tinactin.

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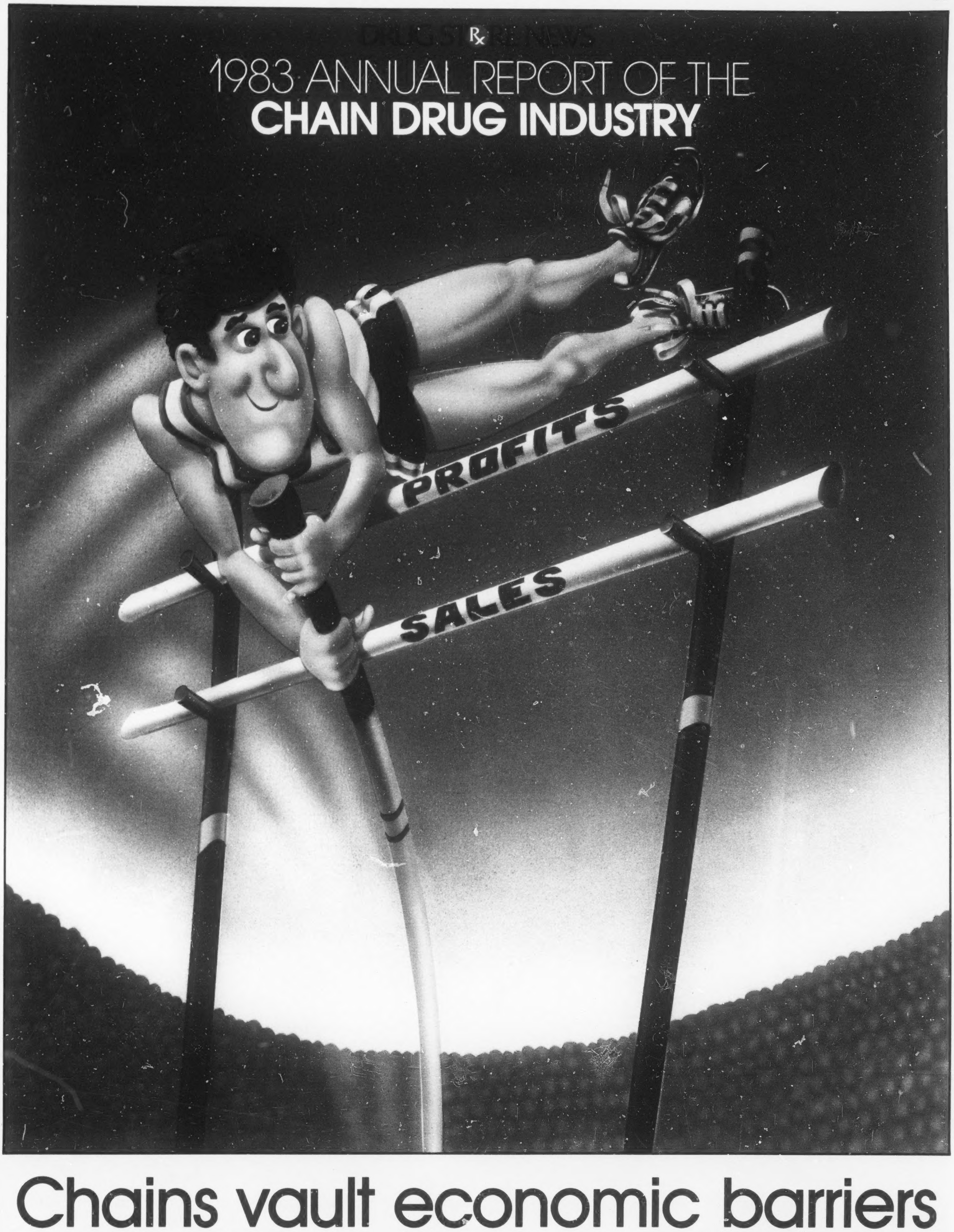
1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY



Chains vault economic barriers

The faltering economy tested drug chains severely in 1982 but they emerged from the year in much better shape than they entered it.

The pitfalls envisioned at the outset were neatly sidestepped, and a year-end totaling showed chain sales up and profits up even more.

How did they manage? How were drug chains able to post a 9.9% sales increase, while other classes of retailers struggled to produce smaller advances? And how were they able to produce such impressive earnings gains?

They got tough.

Here is what Sheldon Fantle, president and ceo of Peoples Drug Stores, had to say at the beginning of the year when prospects were looking a little bleak for the industry.

"This will be a year of refinement—a year in which we must perform our functions more effectively and more efficiently than ever before. We must be lean and mean and respond to the times in which we are living."

Revco was another example of a chain that "responded to the times." Early in the year, president and ceo (now chairman) Sidney Dworkin sent a personal letter to each of the chain's 1,570 store managers, asking them to shave operating costs by $10 a day. Dworkin told the managers that the company had to control and reduce costs to support its ambitious growth plans that called for 2,300 stores and $3 billion in sales by 1966.

"We are going to have to look harder for ways to do things better for less," he wrote. "On the

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PERFORMANCE

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Austerity programs help chains give

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average retailers like Revco need to generate $35 in sales to make $1 of profit."

It wasn't only the industry giants that responded to the economic climate. Small chains caught the fever too. They trimmed employee hours to save overtime pay; they retrofitted stores with energy-saving devices that monitor lighting and air-conditioning, and they reduced inventories and pared the number of individual product sizes to those that sold best.

Inventory control, in fact, became an industry byword in 1982. A survey of chains in the first half of the year showed inventory stock levels had been cut by as much as 25% as retailers fine-tuned their merchandise mix to increase turnover and return on investment. For many of them, inventory reduction meant a three-tiered program involving better use of computer data, making minor alterations in store fixtures (such as shortening pegs to allow less merchandise), and repeatedly driving home the message at managers' meeting of the importance of keeping inventories lean.

In addition, chains were generally much less aggressive in their acquisitions and store openings, preferring instead to concentrate efforts on existing markets and stores. One example was Walgreens.

The two top executives, Charles Walgreen III and Fred Canning, talked about strategies in their efforts to reach $3 billion in sales by 1985. Three strategies stood out: Strengthening existing markets, aggressive remodeling of older stores and quality acquisitions, such as the four-store Sullivans chain in Longmont, Colo.

What all the efforts led to was a stellar year for most drug chains, and the results were recognized by

Ten years of chain drug growth

Year	Chain drug sales (in billions)	Nonchain drug sales (in billions)	Total drug sales (in billions)	Chain drug gain	Chain drug share of market	No. of chain drug units	Average sales per chain unit
1982	$28.66	$7.19	$35.85	+ 9.9%	79.9%	20,225	$1,406,720
1981	26.08	7.51	33.59	+11.7	77.6	19,981	1,305,340
1980	23.35	7.26	30.61	+14.8	76.3	19,251	1,213,050
1979	20.34	7.83	28.17	+14.3	72.2	19,764	1,029,300
1978	17.79	7.59	25.38	+13.6	70.1	19,290	922,350
1977	15.66	7.26	22.92	+12.5	68.3	19,221	814,734
1976	13.92	7.19	21.11	+12.2	65.9	18,857	738,187
1975	12.41	7.00	19.41	+13.3	63.9	18,609	666,882
1974	10.95	7.25	18.20	+13.8	60.2	18,192	601,912
1973	9.62	7.20	16.82	+10.2	57.2	18,073	532,285

Source: *Drug Store News* survey, U.S. Dept. of Commerce

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recession the one-two punch

outside investors, who pushed up the average chain drug stock by 70% during the year.

The biggest stock gain was turned in by Fay's, which rose from $6.25 at the beginning of the year to $25.25 at the end, an increase of 304%. (It has continued to advance.)

Not coincidentally, Fay's had an outstanding sales and earnings performance as well. The Liverpool, N.Y.-based chain reported a 78% income gain on a sales advance of 14%. The sterling results set the tone for the opening of the chain's silver anniversary year.

Walgreens was another company whose stock price was driven upward by outstanding gains in sales and earnings. During the year, the Deerfield, Ill.-based chain realized an increase of 131% in the price of its stock, as sales advanced 17% to just over $2 billion and income rose 33% to $56 million. In Walgreens' case, 1982's performance was just a case of continuing the job it had been doing all along. Walgreens' earnings have shown a compound growth rate of 23% over the past five years.

American Stores, Adams and Genovese were the other chains whose stock increased more than 100% in value during the year. For these chains, too, stock gains were closely keyed to earnings performance. American Stores' net earnings increased 40%, Adams's rose 33%, and Genovese's was up 48%.

In overall performance, chain sales increased 9.9% to $28.66 billion. In doing so, chains increased their share of the total drug store market to 79.9%. Average sales per chain drug unit advanced 7.8% to $1.4 million as the number of chain drug stores increased to 20,225.

In contrast, a decade ago a chain drug store industry consisting of 18,073 stores rang up sales of $9.62 billion to control 57% of total drug store volume.

Two chains, Pay 'n Save and Shoppers Drug Mart, joined the not-so-exclusive billionaire's club last year, and two others, Eckerd and Walgreens, went over the $2 billion mark.

Drug chain executives characterize 1982 as the year that cash flow and the bottom line took on added importance. As a result, a go-go expansion policy evident in prior years changed dramatically. A go-slow strategy coupled with added concern for increased productivity and profitability became the watchword adopted by chain management.

Toward that end mergers and acquisitions slowed to a trickle (331 units changed hands) vis-a-vis much larger numbers in previous years; new store openings totaled 778 units as the cost of shopping center development increased, and 243 marginal outlets were closed as management moved to increase efficiencies in selected markets.

Consolidating and strengthening market position via piecemeal acquisitions in areas of predominance, as well as remodeling existing units played key roles in chain execs' strategies during 1982.

For the first time in recent years, the number of stores remodeled—508—far outdistanced those acquired through merger or buyouts.

But more than new color motifs resulted from these remodelings. Chain execs eyed upgraded departments designed to increase the amount of an average transaction. More national brands, fuller facings, and wider assortments of merchandise were stocked.

Dart Drug and Thrifty are two prime examples of chains that widened their overall lines. Both firms now include books (Crown Books) and auto supplies (Trak Auto) in their mix.

Chains also took a long hard look at units and departments which didn't make a contribution to the bottom line. The result: 243 outlets were closed during 1982.

Remodelings also included the installation of automated equipment designed to increase productivity. Chains increasingly installed optical scanners at their checkouts, computers in their pharmacy departments, and automated order processing equipment in their warehouses.

For example, Revco, Peoples, Hooks, CVS, and Adams Drug Stores continue experimenting with scanners. These supermarket-like, laser POS units, provide up-to-date detailed product movement reports and analyses so chain management can make timely go, no go decisions about products and stock control.

In addition to pharmacy comput-

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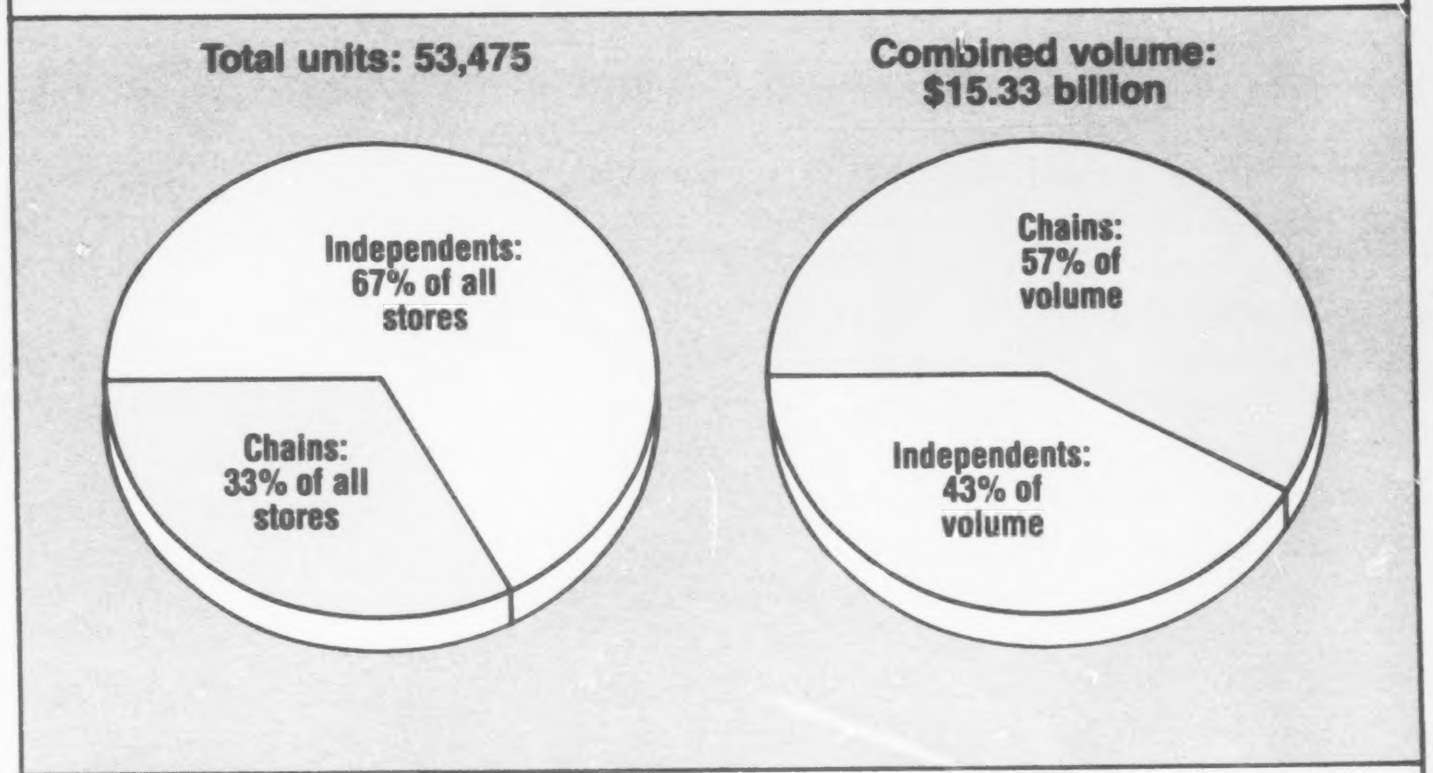
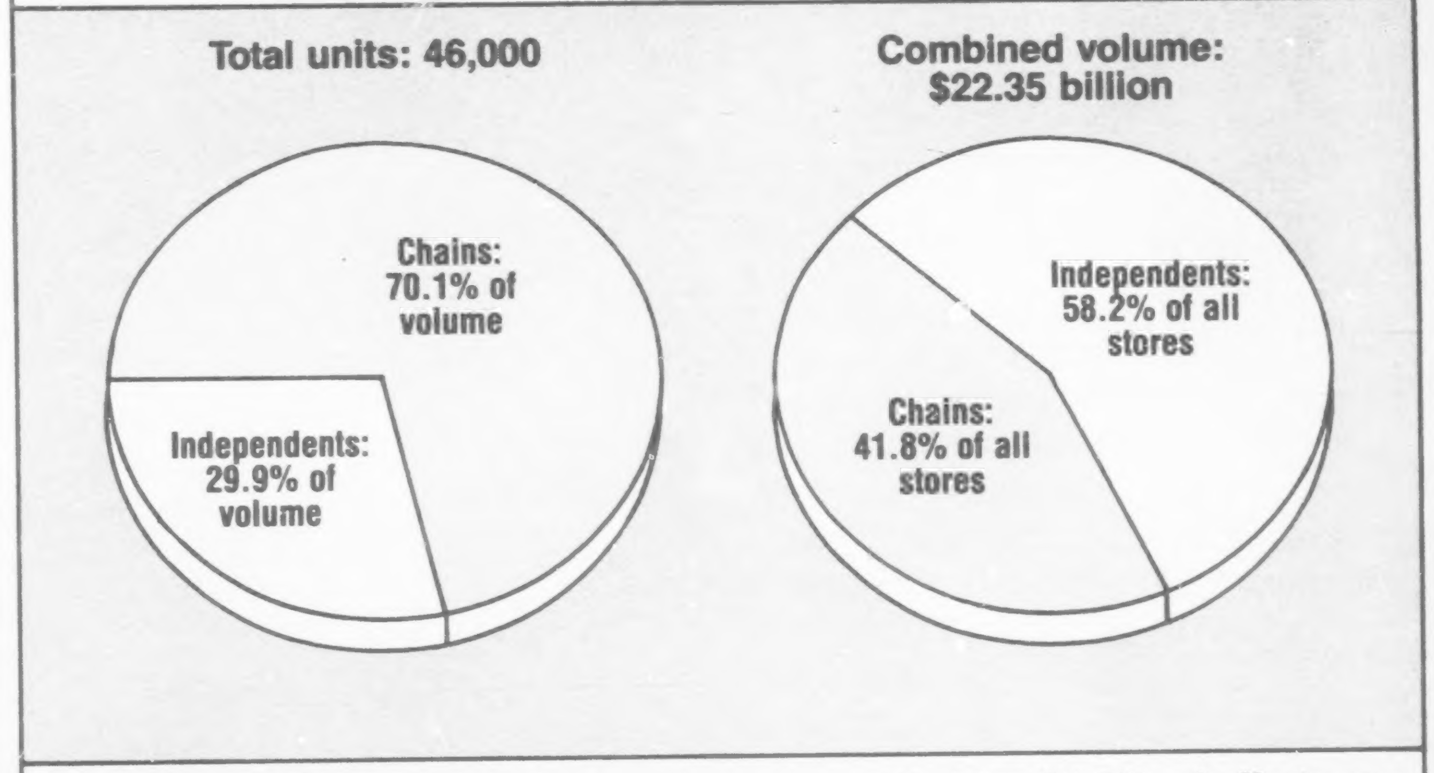
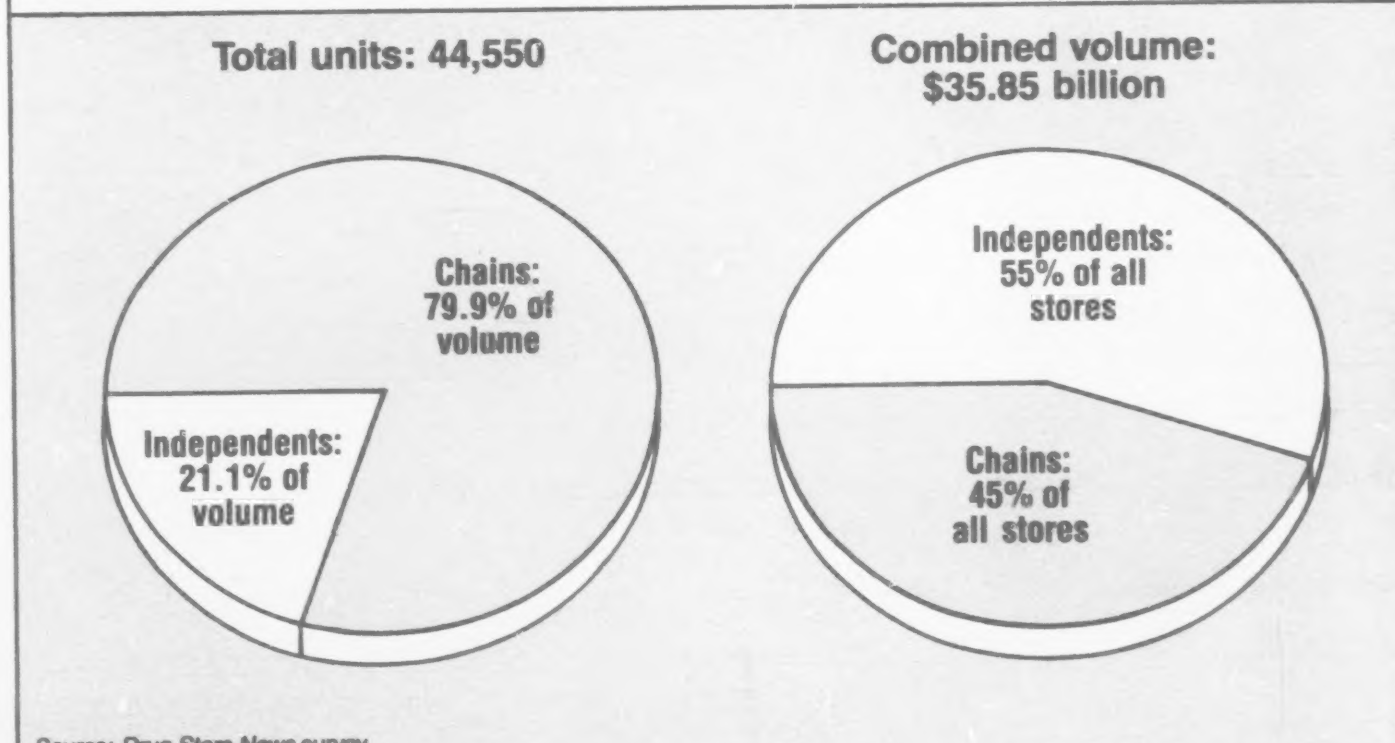
Chains tighten grip on retail drug market



1972 Drug Chains accounted for 57% of all drug volume with only 33% of all stores a decade ago.



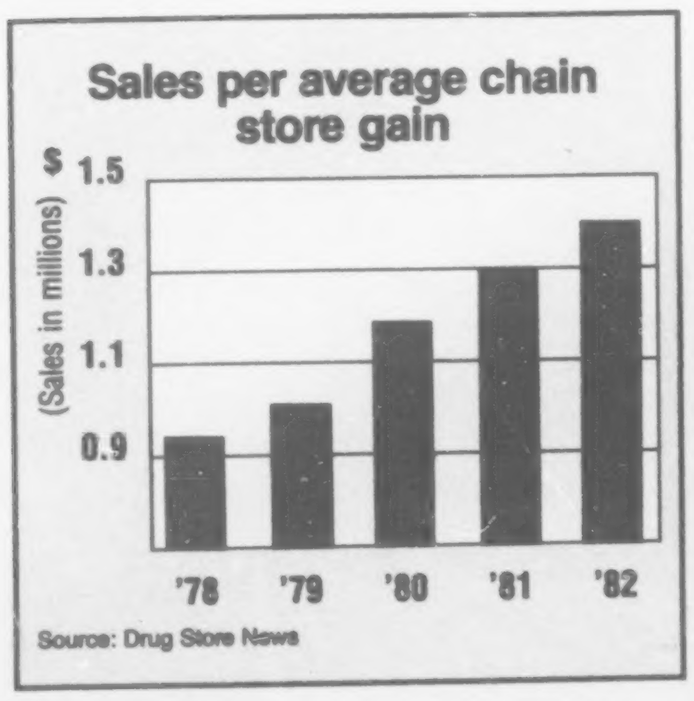
1977 Five years later, chains accounted for 41.8% of all stores, but 70.1% of retail drug sales.



Source: *Drug Store News survey*

1982 Last year, chains increased their grip on the market with 79.9% of all drug sales and 45% of total store count.

Sales per average chain store gain



Source: Drug Store News

plastic housewares
kitchen housewares
kitchen housewares
cleaning products

Execs bench merger game plans

Continued from page 57

ers, other automated equipment is capable of providing electronic payroll reporting, handling mail from headquarters, managing energy and added security.

Chains followed a go-slow, backfill acquisition strategy during the year, a far cry from the numbers recorded in previous periods.

During 1981, ownership of more than 1,000 drug stores changed hands as firms jumped into new markets scattered across the country. But the economy and Reaganomics forced execs to assume a different posture during the past year.

Large and medium size chains such as Eckerd, Thrift, Rite-Aid, Perry, Gray Drug Fair, SupeRx, Medicare Glaser, and Big B each acquired from two to 40 drug units. And the majority of these acquisitions centered on units in or near each chain's existing markets.

Thrift Drug's sale of approximately 20 stores in the Philadelphia, New Jersey, and Maryland areas to Eckerd, and Eckerd's concurrent acquisition of nearly 20 Thrift units in the Tennessee and North Carolina markets represented an example of this strategy.

Rite-Aid acquired 21-store Lomark in Ohio along with the 5-store Cochran and K&H chains. And SupeRx purchased 13-store Illinois Thrifty.

Medicare Glaser acquired two former Osco stores in Missouri, and Big B purchased four Jones Brothers' units in southern Mississippi.

Virtually all these acquisitions were close to the purchaser's home base or in markets where they have more than a toehold.

A number of factors made this strategy near perfect to increase return on the bottom line. Economies of scale, notably in terms of advertising and distribution costs, within each market helped lower the incremental cost of operating a larger number of stores within each designated geographical location.

As an added bonus, leases of many acquired stores are relatively less expensive than the cost of new construction. With interest rates at their highest levels in history during the first eight months of 1982, a void was created in new real estate development. Therefore, an acquisition program with limited objectives represented the most feasible way to expand during what started as a very tight year.

About this issue

The 1983 Annual Report of the Chain Drug Industry is primarily based on four sources: a *Drug Store News* survey of companies operating 12,039 chain drug stores, *Chain Store Guide's* annual survey of chain drug companies, the U.S. Dept. of Commerce and company annual reports.

In compiling the statistics, *Drug Store News* has made some minor adjustments in sales figures to reflect recently published changes by the Commerce Dept.

Finally, the statistics reflect the fact that *Drug Store News'* definition of a chain is one that operates two or more stores.

Opening and remodeling activity—1982

Chain	Openings	Remodelings
A. D. Clark	1	0
Adams	14	43
Arbor	2	2
Begley	3	3
Big B†	14	3
Big V	5	5
Boots	7	2
Carls	0	19
CVS	45	NA
Duane Reade	2	NA
Dunaway	1	2
Eckerd†*	123	NA
Fay's†	8	12
Genovese	5	6
Gray Drug Fair	11	60
Harco	1	5
Hook	16	14
Kerr	2	0
Kinney	2	3
LaVerdiere's	1	0
L. F. Widmann	4	6
Longs†	12	2
Medicare-Glaser	5	7
Medi Mart	2	4
Medicine Shoppe Int'l	40	25
Muir	0	7
Page	5	5
Pay 'n Save	14	1
Peoples†	34	44
Perry	11	19
Pharm-Escomptes	5	4
Rix	0	3
Pathmark	6	18
Pharmacity	3	1
Revco†*	70	NA
Ribordy	1	1
Rite Aid†*	117	75
Sav-On	13	2
Shoppers Drug Mart	12	NA
Snyder's	2	4
SupeRx†*	33	25
Standard	2	3
Super Drugs	7	5
Taylor	1	7
Thayer	2	0
Thrift*	36	25
Union Prescription Centers	8	2
Walgreens†	67	32
Wellby	1	2
White	6	1

†fiscal year
*includes acquisitions

Source: *Drug Store News* survey, company reports

Mergers and acquisitions in 1982

Acquiring company	Acquisition	No. of stores	Location
Rite Aid	Cochran Mann Drug Lomark (incl. 3 Drug Palaces) Circus World K&H	5 27 19 128 5	Ohio North Carolina Ohio Midwest, SE, SW Ohio
Gray Drug Fair	Cunningham Drugway Sims SupeRx Shoppers Drug Mart	25 7 3 2 2	Ohio Virginia Florida Ohio Florida
SupeRx	Illinois Thrifty Gray Drug Fair	13 11	Illinois Cincinnati, Ohio
Apex	Cunningham	36	Michigan, Florida
Eckerd	Thrift	20	Tennessee, North Carolina
Thrift	Eckerd	20	Pennsylvania, New Jersey, Maryland
Perry	Gould	6	Michigan
Medicar Glaser	Osco	2	Missouri
White Drug	Star Drug Stores (Peoples)	4	Minnesota, Iowa
CVS	Lincoln Pharmacies	9	Massachusetts

Source: *Drug Store News*

hank you for shoppi
life towelettes
99

Chain stocks mop up on Wall Street

Chain drug stocks were the darlings of Wall Street in 1982 as Fay's led the *Drug Store News* index of the 17 largest publicly held companies to a 69.59% increase.

While Fay's increased 304% to finish the year at 25¼, up from 6¼, five other chains more than doubled.

The price-to-earnings ratio of chain drug stocks increased from 8.1 in 1981 to 12.5 last year as investors anticipated higher earnings.

"There is a little more room for expanded p/e ratios," according to Robert Roth, vp at Merrill Lynch. "We like retail stocks in general and they should do better in this period of disinflation. The recommendation is still favorable, although there are no aggressive selections now," he said.

Daniel Barry, vp and senior retail analyst with Kidder Peabody & Co., said the chain drug store stocks outperformed the industrial stocks because the recession recovery was felt first at the retail level.

This trend will continue for the next two quarters before increased profits shift from retail to manufacturing, Barry said. However, growth companies, such as many of the large drug chains, will also benefit during the second half of the year, he added.

"The current price-to-earnings ratios reflect last year's profits. They will move up as this year's profits are reported. Looking into next year, the recovery will be under way and the drug chains could do well," Barry said.

Bill Block, an analyst with Rosenkrantz and Ehrenkrantz, was also optimistic about 1983 and predicted price-to-earnings ratios of 18 to 22 for some chain drug stocks.

"There is a good increase in consumer spending, and drug stores will benefit. My forecast is also based on the Dow Jones, which will go up along with the drug stores," he said.

Last year, the Merrill Lynch drug store index increased 51.4%, which was better than the 19.6% posted by the Dow Jones Industrials and the 15% increase posted by the Standard and Poor's 400 and the New York Industrial Index.

However, the Merrill Lynch drug store index did not match the increase posted by stock brokerage firm's retail store index, which rose 72.4%.

Through the first two months of 1983, the chain drug stock index followed by Merrill Lynch increased 5.9%, slightly below the Dow Jones' increase of 6.3%. However, the Merrill Lynch drug store index exceeded the 2.8% increase of all retailers as well as the 5.5% increase posted by the Standard and Poor's 400 and the New York Industrial Index.

The 17 stocks on the *Drug Store News* Index did even better, increasing more than 20% by March 14.

Fay's continued to lead the pack, but an increase in earnings at Begley prompted the stock of the Kentucky chain to increase more than 50% in February.

On March 16, Dart increased 13 points to 48½ after a prospectus on the chain's proposal to spin off Trak Auto into a separate public company was released.

Although final Dart figures for the year ended January 1983 were not released, the prospectus showed Trak's contribution to Dart increased to $4.1 million from $2.2 million in the preceding year.

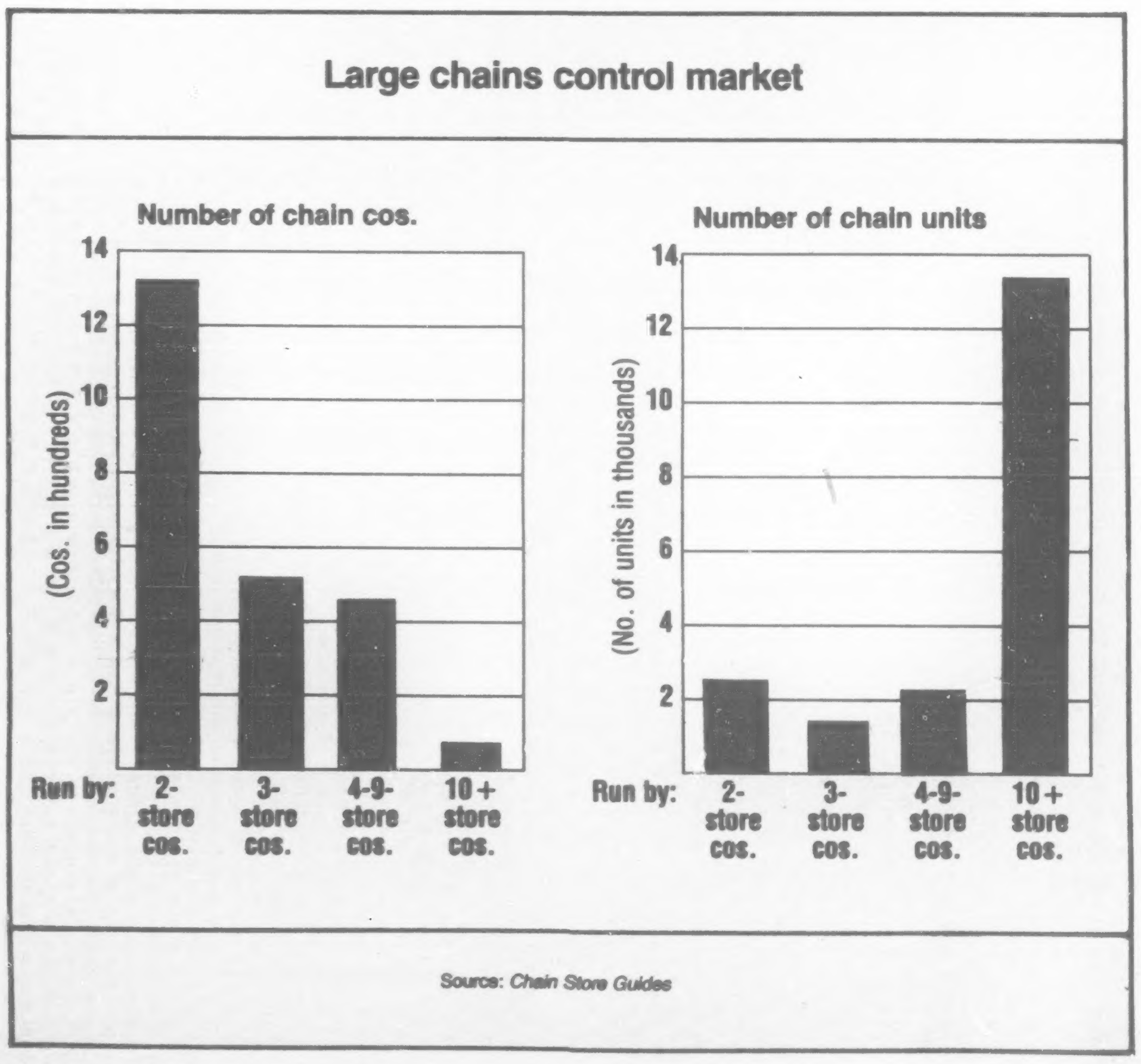
Chain drug stock performance

Company	1982 stock prices			% change in '82	Year-end '82 P/E ratio	Year-end '81 P/E ratio	Recent price 3/14/83
	High	Low	Last				
Adams	10⅝	4½	9⅜	+108.3	10	6	12½
American	70	25¼	65	+120.3	10	7	75
Begley	11½	7½	10¼	+ 7.9	10	—	15
Dart	32¼	10¾	31	+150.0	11	9	35
Eckerd	28¼	17¾	24⅝	+ 1.0	14	11	28¼
Fays	30	6¼	25¼	+304.0	16	12	22¾*
Genovese	16	5¼	13⅞	+146.7	10	9	20⅞
Hook	27	16¼	24	+ 29.7	12	7	30½
Longs	47	24¾	35⅝	+ 23.4	13	10	41¾
Pay Less	30⅜	12½	28½	+ 78.1	14	9	27¼
Pay 'n Save	33¾	16½	30⅞	+ 33.5	12	8	43⅛
Peoples	29⅞	11⅝	28⅝	+ 81.1	14	7	32⅝
Perry	13⅜	8½	13	+ 15.6	12	9	17⅜
Revco	47¾	21⅜	40½	+ 67.9	15	11	45
Rite Aid	53½	27	46¼	+ 61.6	15	10	32⅞*
Thrifty	21¼	10¼	18⅝	+ 47.5	10	7	21
Walgreen	58¾	22¼	56⅛	+130.9	15	8	31¼*

*Walgreens split 2-for-1, Rite Aid split 3-for-2 and Fays split 2-for-1 between Jan. 1 and March 14.

Source: Standard & Poor's Stock Guide

Big chain market share increases


Large chains control market

Source: *Chain Store Guides*

The trend toward big-chain domination of the chain drug industry continued unabated in 1982 as the number of units operated by companies with at least 10 stores increased to 13,616—the result of new store openings and heavier activity in the small-acquisition market.

At the same time, the number of companies operating 10 or more stores fell last year to 141 from 144, maintaining the downward trend that has been going on since 1977, when the number of companies with 10 or more units stood at 171. Mergers and acquisitions have caused the decline.

Overall, the number of chain drug units reached 20,225 in 1982, a 1.2% gain over the adjusted figure of 19,981 reported for 1981.

All in all, there were 1,341 two-store drug companies last year operating 2,682 units; 529 three-store companies with 1,585 units; 469 four-to-nine-store companies operating 2,340 units, and 141 companies of 10 or more stores operating a total of 13,616 units.

In Canada, the number of chain drug stores increased 3.7% in 1982 to 1,587 from 1,529 the previous year, while the total number of chain drug companies declined to 150 from 154.

As in the United States, the increase in store count was greatest for companies operating 10 or more units. In 1982, Canadian companies running at least 10 stores had a total of 1,163 units vs. 1,112 the previous year.

On the other hand, the number of stores operated by two- and three-unit companies declined to 203 from 212 in 1981.

The number of Canadian companies with 10 or more stores declined slightly to 22 from 23 the previous year, while the number of companies with four to nine stores increased by one to 38. The number of two- and three-store companies also rose last year to 100 from 94 in 1981.

Within headquarters, the number of executives, merchandisers and buyers employed by American retail drug chains increased last year to 8,447 from 8,172 the previous year.

Interest drops, warehouses expand

Several drug chains took advantage of declining interest rates last year and expanded their warehouse and distribution facilities.

A number of other chains in 1982 completed the construction of new warehouses which had already been under way for some time.

In addition to the lower costs of money, drug retailers cited growing sales, higher profit margins taken by distributors, the increased dependency of their stores on their warehouses and heightened consumer demand for promotional items as reasons for the expansions.

Walgreens made its new warehouse and distribution center, in Windsor, Wis., fully operational last year. The 350,000-sq.-ft. facility currently supplies more than 350 stores in the Midwest with 67% of their stock.

The warehouse is equipped with some of the industry's state of the art technology including laser beam scanners, automated item selection devices and a computerized conveyor system.

A new 200,000-sq.-ft. warehouse in Flagstaff, Ariz., will begin supplying Walgreens stores in the Southwest this month.

Ribordy Drugs brought its new 50,000-sq.-ft. office headquarters and warehouse complex in Valparaiso, Ind., on-line during the past year. The warehouse serves all 23 of the chain's stores. With its 40-ft. ceiling, the facility is the equivalent of 100,000 sq. ft.

In Canada London Drugs Ltd., an 18-store chain based in Vancouver, B.C., opened a new 167,000-sq.-ft. distribution center last year. Prior to the opening of the facility, the company operated a 40,000-sq.-ft. warehouse and leased additional space. The new building more than doubles the chain's warehousing capacity.

Another chain that increased its network of warehousing and distribution centers was Rite Aid. The chain completed a 63,000-sq.-ft. addition to its warehouse near Charleston, W. Va. The expansion brings Rite Aid's total warehouse space to 980,000 sq. ft. The company also operates facilities in Shiremanstown, Pa., and Rome, N.Y.

Other chains also broke ground last year for the construction of additional warehouse and distribution facilities.

Eckerd, which already maintains the highest amount of warehouse space in the industry, began construction on a new 230,000-sq.-ft. distribution center in Hamilton, La. When finished next year, the building will serve more than 150 stores in the Southeast. It will replace the chain's 35,000-sq.-ft. warehouse in nearby Lafayette, La. Eckerd currently operates a total of 2 million sq. ft. of warehouse space. From these facilities it distributes 95% of its stock.

Pay Less NW announced plans for its new 200,000-sq.-ft. warehouse last year. The building will be completed sometime in 1984. Company officials said the warehouse would be used primarily for promotional merchandise. Pay Less NW currently maintains 208,000 sq. ft. of floor space plus 208,000 sq. ft. of mezzanine.

In a separate development, Pay Less said that beginning this fall, the chain will warehouse legend drugs for the first time in its history. An estimated 6,000 sq. ft. to 8,000 sq. ft. will be apportioned for pharmaceutical warehousing, the chain said.

Making plans

Also making plans for a new warehouse was Peoples, which said it would build a 500,000-sq.-ft. warehouse to serve 260 stores in its mid-Atlantic region within the next two years. The new facility will replace the chain's Alexandria, Va., warehouse, as well as two other leased buildings.

Several drug chains added extensions to their existing warehouses and distribution centers. In some cases, the additions increased the chains' storage capacity by more than 50%, enabling them to increase store order turnaround and cut distribution costs.

At Big V Pharmacies Co. Ltd., the 64-store chain based in London, Ontario, Tony Crncich, chairman, president and general manager, said the total square footage of its warehouse space doubled last year.

The expansion did not require any additional construction, however. The chain took over 20,000 sq. ft. of unused space in a building it occupied.

Crncich said while he didn't want to operate a full-line warehouse, the chain's "rapidly growing rate of sales" made the expansion a necessity. He also said the additional space will increase the amount of sales handled through the warehouse by 10%.

Despite the fact 95% of its stock passes through its warehouse, Norton Taylor, president of Kinney Drug in Gouverneur, N.Y., said because of its location, which is not near any major highways, the chain has had difficulty getting merchandise to its 23 stores.

With the lower costs of money, Kinney decided to solve its supply problems by building a 30,000-sq.-ft. extension to its existing warehouse. The new facility, with its 30-ft. ceiling, actually provides the chain with 90,000 sq. ft in additional space.

Thayer Pharmacies Inc., in Stoughton, Mass., increased the size of its warehouse by 16,000 sq. ft. last year. According to Jeffrey Ross, the chain's president, treasurer and ceo, the expansion will enable it to increase the percentage of stock it handles through its warehouse by 10%. Forty per cent of its stock currently passes through the warehouse.

Ribordy's 40-ft.-high Valparaiso, Ind., warehouse and office complex has enabled the 23-store chain to improve its inventory control.

Top Drug Chains in Warehousing

Chain	Number of Facilities	Total Square Footage
1. Eckerd	6	2,600,000
2. Walgreens	7	2,000,000
3. Revco	9	1,700,000
4. Thrifty	3	1,180,000
5. Rite Aid	3	980,000
6. Peoples	6	862,000
7. Jewel	2	800,000
8. Thrift	3	689,000
9. Gray Drug Fair	3	625,000
10. Hook Drugs	3	599,000
11. SupeRx	2	560,000
12. K&B	2	540,000
13. Grand Central Inc.	2	520,000
14. Pay Less NW	1	512,000
15. Dart	1	500,000
16. Tom Thumb	1	385,000
17. Adams	1	385,000
18. American Stores	8	383,000
19. Snyder's	1	375,000
20. Pay 'n Save	1	350,000
21. Boots Drugs	1	265,000
22. Fay's	1	229,000
23. Perry	1	224,000
24. Malone & Hyde	1	210,000
25. London Drugs	1	169,000
26. Pharm-Escomptes	3	120,000
27. Duane Reade	1	120,000
28. Standard Drugs	1	110,000
29. Rix	1	105,500
30. Big B	2	102,000
31. Discount Drug	3	102,000
32. LaVerdiere's	1	100,000
33. Carl's	1	100,000
34. Kinney Drug	1	95,000
35. Drug Fair N.J.	1	81,000
36. Taylor Drug	1	80,000
37. Begley	1	80,000
38. Courtesy	1	75,000
39. Kerr	1	75,000
40. Medicare-Glaser	1	75,000
41. Arbor	1	72,000
42. Pharmacity	1	60,000
43. Harco	1	60,000
44. Muir	1	50,000
45. Longs*	1	50,000
46. Ribordy	1	50,000
47. Big V	1	50,000
48. Page	1	45,000
49. People's Drug Mart	1	40,000
50. White	1	40,000
51. L. F. Widmann	1	40,000

*Includes variable leased space

Source: *Drug Store News* survey

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PERFORMANCE

Economy fosters deep discounting

During 1982, the deep-discount drug format drew heavy retailer attention as both major chains and entrepreneurs tested this type of operation.

Strong interest in deep-discount drug stores has been partly fueled by the difficult economy, which, in turn, has triggered intense consumer interest in off-price retailing. Specialty retailers and discounters discovered that shoppers are highly enthusiastic about paying less for national brands. Some abandoned shopping centers have even been revived by tenanting them entirely with off-price retailers, such as Marshalls or T. J. Maxx, and these centers often have attracted a deep-discount drug operator.

The format of a deep-discount drug store is usually much larger than a traditional chain unit. For example, Jax in the Cleveland area is 24,000 sq. ft. in size (18,600 sq. ft. selling), and a typical Drug Emporium runs 15,000 sq. ft. A few, such as Cecille's in Michigan, are smaller—about 7,000 sq. ft.

The units are large because a great deal of merchandise must be packed in to generate the volume levels needed to make a profit. This is especially so because gross margins run as low as 16% to 19%. A volume of at least $3 million to $4 million is needed to break even.

High volume

Most of those in the business aren't having trouble reaching that figure. Drug Emporium units often exceed $10 million, Jax, when mature, can produce $15 million to $20 million, and Marc's (owned by Marc Glassman) had a 1982 sales volume of $25 million. Nearby to Marc's in suburban Cleveland, Shulman's average weekly customer count of 30,000 people produced annual sales of more than $20 million. In other words, a typical drug store needs about five months to do the kind of volume a store such as Shulman's rings up in one week.

So it is no surprise that chains have been experimenting with this format.

SupeRx has three SuperXtra Drug Worlds, Pharmacity has Heartland, Rite Aid operates three Drug Palace stores, Gray unveiled a unit operating on low margins, Ribordy has R-Way and Carls Drug tried low-margin retailing with Cost-Rite.

The latter, however, bailed out of the business early in 1983 after finding shoppers in Cost-Rite's market preferred the full-line drug approach.

Since about 75% of deep-discount buying is on deal, it can be a problem when customers want one size of toothpaste and the only deal available is for another. Other dangers of deep discounting involve the high costs of inventory needed to stock great quantities. Inventories range upwards of $1 million. The final problem, of course, is that the retailer can strike a bad deal and get a load of merchandise that just doesn't move—Glassman recently was quoted as saying he is stuck with thousands of imitation Rubik's Cubes.

Deep discounters continue to flourish

Store name	Owner	Major markets	No. of units
Drug Emporium	Franchised, developed by Phil Wilber	Dallas, Phoenix, Columbus, Atlanta, San Diego, Kansas City, Kan.	19
Rock Bottom	Courtesy Drug	Long Island, Metro New York	19
F&M	Private investors, president Bill Edwards	Detroit, Chicago, Indianapolis, Toledo	9 (two on schedule)
Warehouse Way	Chatham Supermarkets	Detroit	7
Warehouse Drugs	Mi-Lo	Lexington, Louisville, Ky., Cincinnati	5
SuperXtra Drug World	SupeRx Drug	Cincinnati	3
Drug Palace	Rite Aid	Columbus, Ohio	3
Jax	Fisher Foods	Cleveland	2
Shulman's	Founded by the late Bernie Shulman, now run by wife, Terry	Cleveland, Florida	2
Marc's	Marc Glassman	Cleveland	1 (with intent to franchise)
Cecille's	Sonny and Cecille Raichlen	Birmingham, Mich.	1 (with plans for one more)
Gray	Gray Drug Fair	Cleveland	1
Jote's	Jody Fazio	Cleveland	1
R-Way	Ribordy	Indiana	1
Pete 'n Larry's	Private owners	Buffalo, N.Y.	1
DFL	Safeway	Garland, Tex. Plans for new units in Oklahoma City; Duncanville, Tex.	1 (plans for five within next month)
Drug Warehouse	May's	Oklahoma	1
Freddie's	Private owner	Rochester, N.Y.	1
A to Z	Bill Bevacqua	Atlanta	1
Heartland	Pharmacity	Massachusetts	6
Super Drug	Super X Drug	Toronto	1
Drug Outlet	Jack Austin Drug	Toronto	1
Shopper Drug Warehouse	Shoppers Drug Mart	London, Ontario	1

Source: *Drug Store News* survey

OPEN
Drug Emporium

Partly fueled by the difficult economy, both major chains and entrepreneurs have been testing the deep-discount format.

Yet, the prognosis for deep discounting is favorable. *Drug Store News* estimates that the number of these outlets will more than double in the next five years and account for more than 2% of total chain drug sales. Not only will new entries such as DFL (Drugs For Less, Safeway's deep-discount outlet) move into various markets, but existing operations such as Drug Emporium and Jax are poised for even greater growth. Drug Emporium, for instance, already has 31 units on the drawing board.

The growth of this sector inevitably means that deep discounters have begun stepping on chains' toes. The competitive impact of low-margin operators has been evident in moves taken by chains. Gray last year slashed prices and lowered margins to 17% to 20% after Jax opened nearby. Pathmark reduced prices in its Metropolitan New York units to meet Rock Bottom's competitive thrust, and Revco took markdowns in Texas following the opening of a new Drug Emporium. The consensus, however, is that both forms can coexist successfully.

Meanwhile, other chains continued to move heavily into the combo business in 1982. Combos are huge stores uniting groceries and drug under one roof. Some combos have separate checkouts, others have a common cashier area. The mix is usually about 60% food and 40% drug. The most aggressive in this area include Jewel, Kroger, Skaggs, Tom Thumb, Raley's. Wellby and Big B are two other companies testing the combo concept.

There are also combos that are not food/drug combos such as Perry Drug's drug/auto combos and Sav-On's drug/home centers. Perry units devote about one-third of the selling space to auto supplies. This tactic has been successful, and Perry recently opened separate freestanding auto units.

Many drug chains have maintained their standard mix over the years. However, 1982 appeared to be a year when these conventional operators stressed the health and professional image portrayed in the drug store. Pharmacy services were promoted and health areas were expanded. An example of this is both Medicare-Glaser and Fay's. These two chains advertised the benefits of their pharmacy computer systems.

Also, chains have expanded health areas. Convalescent aids are popular along with hearing, optical and dental services. Chains are stressing their health image to drive back competitors hungry for the Rx and H&BA business.

PERFORMANCE

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Top 50 capture 63% of total sales

HOME REMEDIES
FOOT CARE

Top 75 drug chains by sales

Chain	Total Drug Store Sales (in millions)
1. American	1,980°
2. Walgreen	1,924 + +
3. Eckerd	1,810 + +
4. Revco	1,700 +
5. Jewel Cos.	1,545°
6. Shoppers Drug Mart	1,150 + **
7. Thrifty	1,126 + + *
8. Longs	1,123 + +
9. Rite Aid	967 +
10. Pay Less NW	785 + +
11. Peoples	688 + +
12. SupeRx	683 + +
13. Pay 'n Save	646 +
14. CVS	615 +
15. Gray Drug Fair	540 +
16. Thrift	538 +
17. Pathmark	430°
18. Dart	292 + + *
19. Adams	286 +
20. Hook	285 +
21. K&B	282°
22. K mart	280°
23. Pharm-Escomptes Jean Coutu	273 + **
24. Fay's	270 + +
25. Perry	244 +
26. Boots	220 + **
27. Genovese	159 +
28. Medi Mart	118 +
29. Medicine Shoppe	108 +
30. Duane Reade	100 +
31. Medicare-Glaser	102°
32. Snyder's	92 +
33. Page	88°
34. Big B	87 + +
35. Big V Pharmacies	82 + **
36. Carl's	77°
37. A. D. Clark	75 +
38. Arbor	60 +
39. Union Prescription	60 +
40. LaVerdiere's	55°
41. Kerr Drugs	54°
42. Discount Drug Mart	52 +
43. Taylor	51 +
44. White Drugs	51°
45. Kent Drugs Ltd.	50°**
46. Cumberland Drugs	50°**
47. Erickson's Valu Drugs	48 +
48. Pharmacity	47 +
49. Super X Drugs Ltd.	46 + **
50. Standard	45°
51. Courtesy	44°
52. Drug Fair NJ	42 +
53. Harco	42°
54. Begley	41 +
55. Ribordy	41°
56. Carr's Pay Less	34°
57. Drug King	34°
58. Medi-Save	33°
59. Bill's	33°
60. Muir	32 +
61. Kinney	31 +
62. Rix	31 +
63. Wellby Super Drug	30 +
64. Douglas	27 +
65. L. F. Widmann	26 +
66. Lewis Self-Service	26 +
67. Sentry	25 +
68. Thrifty Drug, Minn.	23 +
69. Pay Less Drug Stores	22 +
70. Bartell Drug Co.	22 +
71. May's Drug Stores	18 +
72. Mi-Lo	18 +
73. Cook	16 +
74. Crown	16 +
75. Keystone	15 +

°estimate
+ + Fiscal year
+ Calendar year
*Corporate sales
**Canadian dollars

Source: Company reports: *Drug Store News* survey

The top 50 drug chains again set a blistering sales pace for 1982, outperforming the drug store industry as a whole—as well as the chain drug field—by a substantial margin. Sales volume for the top 50 increased by almost 12%.

Revenues for the leading 50 chains reached $22.4 million, or 63% of the $35.85 million in total drug store sales reported by the U.S. Department of Commerce for 1982. The top 50 chains also rang up 78% of all chain drug volume.

Ten chains reported sales of more than $1 billion, and two of them, Walgreens and Eckerd, went over the $2 billion mark, although in both cases volume was boosted by operations outside drug store retailing. Eckerd had its JByrons department stores, VideoConcept outlets and apparel business and Walgreens its Wags restaurants and Mexican affiliate, Sanborns. Both, however, remain primarily drug store operations.

Rite Aid was another drug chain whose billion-dollar sales year was helped by diversification into other areas, including food wholesaling, rack jobbing and toy retailing. Last month, Rite Aid added another retailing venture—the opening of a chain of Heaven stores.

For both Jewel Cos. and American Stores, the billion-dollar-plus drug store volume was the result of combining sales from two retail drug operations—Jewel's Osco and Sav-On and American's Skaggs and Rea and Derick.

In 1982, Shoppers Drug Mart and Pay 'n Save joined the no longer so exclusive billion-dollar club. In Pay 'n Save's case, too, a big part of corporate volume was generated by the company's diversification into other types of retail operations—sporting goods outlets, home centers and apparel stores. (The sales chart on this page in most cases reflects only sales from retail drug operations.) The 10 leading chains combined to produce drug store sales of $14.1 billion, or 39% of all retail drug volume. That percentage topped the 37% recorded by the leading chains in 1981,

Continued on page 69

'Acquisition fever' cooled in 1982

Top 50 chains: 12,684 stores

Chains	1982 store totals	1981 store totals	Net gain
1. Revco, Twinsburg, Ohio	1,642	1,556	+ 86
2. Jack Eckerd Corp., Clearwater, Fla. (7/31/82)	1,238	1,135	+103
3. Rite Aid, Shiremanstown, Pa.	1,060	958	+102
4. Walgreen, Deerfield, Ill. (8/31/82)	883	821	+ 62
5. SupeRx, Cincinnati	565	537	+ 28
6. Thrifty Corp., Los Angeles	535	534	+ 1
7. Peoples, Alexandria, Va. (9/25/82)	554	527	+ 27
8. Jewel Cos., Oak Brook, Ill.	470	450	+ 20
9. CVS, Woonsocket, R.I.	466	433	+ 33
10. Adams Drug Co., Pawtucket, R.I.	465	481	− 16
11. Shoppers Drug Mart, Toronto	434	433	− 1
12. Gray Drug Fair, Cleveland	380	365	+ 15
13. Medicine Shoppe International, St. Louis	365	329	+ 36
14. Thrift Drug Co., Pittsburgh	354	344	+10
15. American Stores, Salt Lake City	383	334	+ 49
16. Hook Drugs Inc., Indianapolis	282	269	+ 13
17. Boots Drugs, Toronto	177	172	+ 5
18. Longs Drug Stores, Walnut Creek, Calif.	173	162	+ 11
19. Pay Less NW, Wilsonville, Ore.	146	143	+ 3
20. Pay 'n Save, Seattle	143	133	+ 10
21. Malone & Hyde, Memphis	132	128	+ 4
22. Perry Drug Stores, Pontiac, Mich.	125	117	+ 8
23. Union Prescription Centers, Milwaukee	125	117	+ 8
24. Pathmark Drug Stores, Edison, N.J.	121	118	+ 3
25. K&B Inc., New Orleans	115	108	+ 7

Chain	1982 store count	1981 store count	Net gain
26. Rix Corp., Auburndale, Mass.	103	104	− 1
27. Fay's Drug Co., Liverpool, N.Y.	92	84	+ 8
28. Medicare-Glaser Corp., St. Louis	89	85	+ 4
29. Big "B" Discount Drug Inc., Birmingham, Ala.	83	72	+11
30. Dart Drug, Landover, Md.	71	70	+ 1
31. Genovese Drug Stores, Melville, N.Y.	66	61	+ 5
32. Big V Pharmacies Co. Ltd., London, Ontario	64	59	+ 5
33. Pharm-Escomptes Jean Coutu, Longueil, Quebec	62	57	+ 5
34. L. F. Widmann Inc., McElhattan, Pa.	61	57	+ 4
35. Super X Drugs Ltd., Downsview, Ontario	56	50	+ 6
36. Standard Drug, Richmond	54	53	+ 1
37. LaVerdiere's Super Drug Stores, Winslow, Me.	52	51	+ 1
38. Begley Drug, Richmond	51	50	+ 1
39. Snyder's Drug Stores, Hopkins, Minn.	50	48	+ 2
40. Medi Mart, Quincy, Mass.	50	48	+ 2
41. Taylor Drug Stores, Louisville, Ky.	47	46	+ 1
42. Harco Drug, Northport, Ala.	45	44	+ 1
43. White Drug, Jamestown, N.D.	42	37	+ 5
44. Page Drugs, Dallas, Tex.	38	33	+ 5
45. Carls Drug Co., Rome, N.Y.	35	35	—
46. Kerr Drug, Raleigh, N.C.	34	32	+ 2
47. Wellby Super Drug, Portland, Me.	28	28	—
48. Arbor Drugs, Troy, Mich.	28	26	+ 2
49. Muir Drug Stores, Grand Rapids, Mich.	25	27	− 2
50. Ribordy Drugs, Valparaiso, Ind.	23	22	+ 1

*Includes Osco and Sav-On

Source: Business Guides Inc. & *Drug Store News* survey

Continued from page 66

demonstrating again the domination of the leading companies.

In 1982, Revco maintained its number one position in store count, with over 1,600 outlets in 28 states. The Twinsburg, Ohio-based chain had a net gain of 86 stores during the year.

The biggest gain in store numbers was accomplished by Eckerd. The Clearwater, Fla.-based chain added 103 stores during its fiscal year ended July 31 to hit 1,238 outlets in 16 states.

The only other chain to add more than 100 units was Rite Aid. The Shiremanstown, Pa.-based chain had a net gain of 102 stores to reach 1,060 and become the third chain drug company to break the 1,000-store barrier.

The economy last year had a dampening effect on major acquisitions by drug chains, in comparison to the "acquisition fever" which raged through the industry the previous year. For the most part, chains pursued a "backfilling" strategy of strengthening their positions in existing markets with smaller acquisitions and individual store openings.

The most active chains in the acquisition market were Rite Aid and Gray Drug Fair. Among Rite Aid's purchase's were the 27-store Mann Drug chain in North Carolina and the 19-store Lomark chain in Ohio (three of them low-margin Drug Palaces). Gray Drug Fair's acquisitions included 25 Cunningham stores in Ohio.

THANK YOU FOR SHOPPING
CARD SHOP
23
5
4

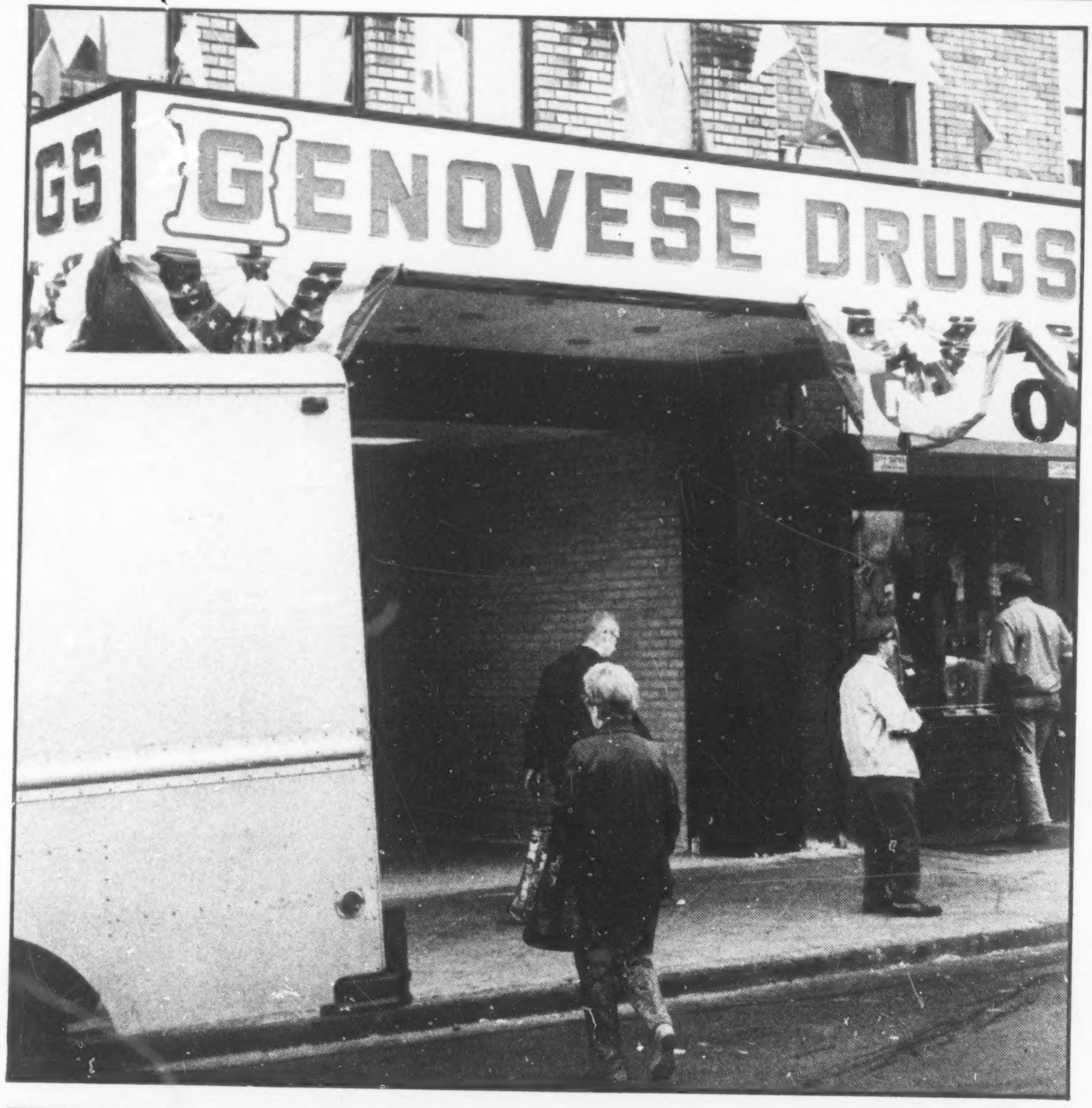
DENTAL CARE

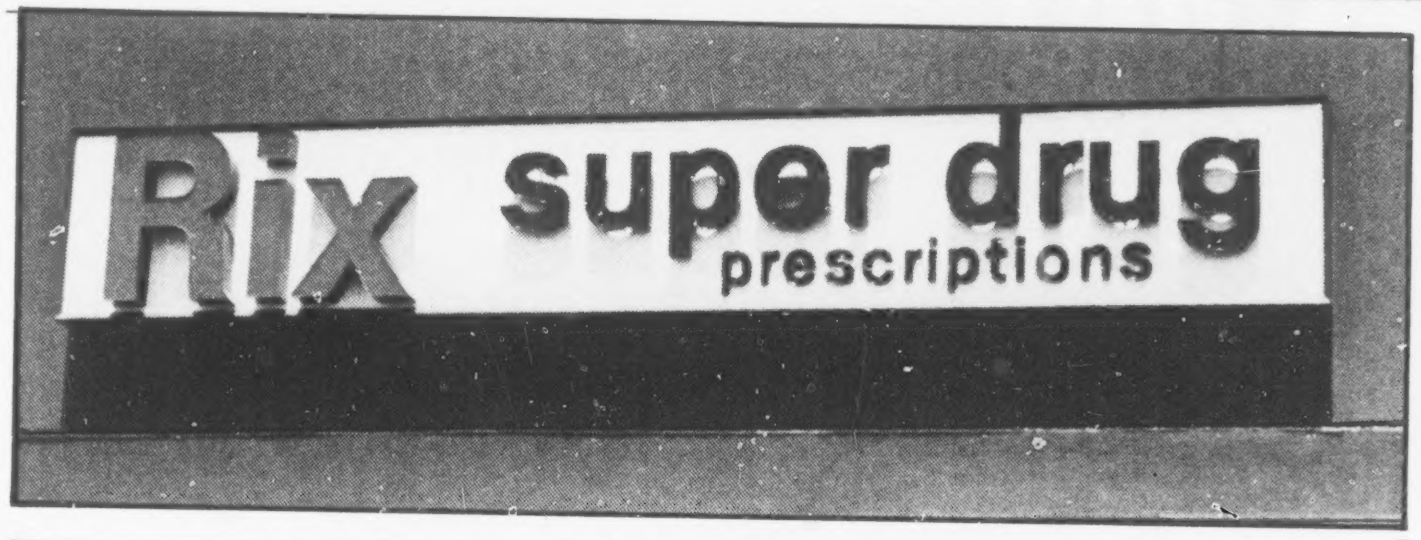
PERFORMANCE

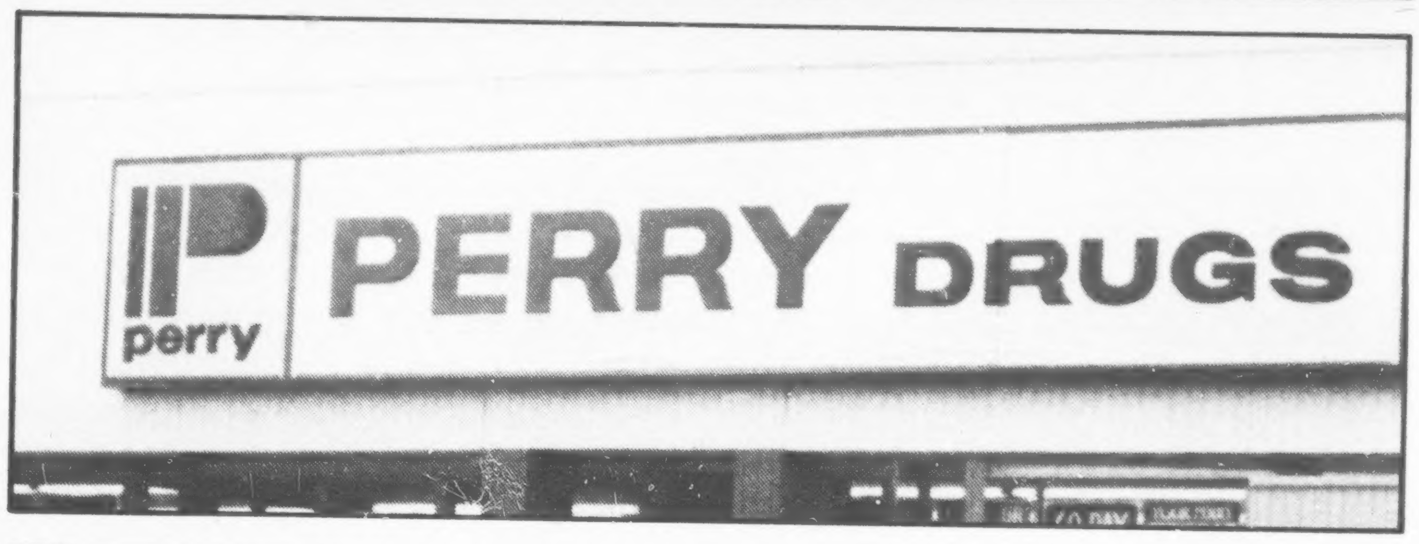
1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

1982 final scores for 18 publicly

Add 000 to all dollar figures	Total sales					Net income					Net-to-sales ratio				
Chain	'82	'81	'80	'79	'78	'82	'81	'80	'79	'78	'82	'81	'80	'79	'78
Adams (Yr. ends 12/31/82)	$ 286,247	$ 242,489	$ 207,014	$ 175,754	$ 154,353	$ 4,555	$ 3,437	$ 3,127	$ 2,479	$ 2,894	1.6	1.4	1.5	1.4	1.9
Begley (Yr. ends 3/31/82)	49,982	47,289	42,774	36,326	32,637	229	798	963	1,326	1,119	0.5	1.7	2.3	3.7	3.4
Big B (Yr. ends 1/31/83)	87,413	N/A	N/A	N/A	N/A	2,541	N/A	N/A	N/A	N/A	2.9	N/A	N/A	N/A	N/A
Dart (Yr. ends 1/31/83)	291,820	276,937	259,900	231,211	209,292	9,112	4,170	1,385	3,565	2,300	3.1	1.5	0.5	1.5	1.2
Eckerd (Yr. ends 8/1/83)	2,080,183	1,752,550	1,408,455	1,325,140	1,131,445	70,681	78,510	69,254	59,303	50,633	3.4	4.5	4.9	4.5	4.5
Fay's (Yr. ends 1/31/83)	270,275	238,233	243,117	194,037	141,921	5,479	3,071	923	3,010	2,478	2.0	1.3	0.4	1.6	1.7
Genovese (Yr. ends 1/29/83)	158,651	134,155	122,000	97,447	86,054	2,643	1,780	516	1,557	N/A	1.7	1.3	0.4	1.6	N/A
Hook (Yr. ends 12/31/82)	285,226	261,155	235,503	207,215	184,220	6,592	5,853	7,318	3,373	5,629	2.3	2.2	3.1	3.1	3.1
Longs (Yr. ends 1/27/83)	1,123,234	1,005,370	893,198	773,251	663,542	30,890	30,274	25,862	26,687	33,600	2.8	3.0	2.3	3.5	3.6
Pay Less NW (Yr. ends 1/31/83)	784,704	758,529	750,947	380,500	345,573	19,375	16,649	14,317	12,400	9,853	2.5	2.2	1.9	3.3	2.9
Pay 'n Save (Yr. ends 1/31/83)	1,043,218	949,189	823,390	709,063	618,731	16,807	12,897	18,998	19,313	17,199	1.6	1.4	2.3	2.7	2.8
Peoples (Yr. ends 9/30/82)	688,409	634,292	561,836	441,114	404,430	10,483	9,304	8,178	6,457	5,521	1.5	1.5	1.4	1.5	1.4
Perry (Yr. ends 10/31/82)	244,272	192,066	136,427	109,275	89,155	2,868	3,369	2,363	2,501	2,100	1.2	1.8	1.7	2.3	2.4
Revco (Yr. ends 5/29/82)	1,554,656	1,310,404	1,092,797	927,533	792,033	49,638	45,129	38,916	33,636	29,376	3.2	3.4	3.6	3.6	3.7
Rite Aid (Yr. ends 2/26/83)	1,294,711	1,066,474	944,151	811,100	640,272	49,885	39,852	35,885	30,201	N/A	3.9	3.7	3.8	3.7	N/A
Rix (Yr. ends 8/30/82)	31,576	30,936	29,030	26,239	24,609	102	(179)	250	164	438	0.3	N/A	0.9	0.6	1.8
Thrifty (Yr. ends 8/31/82)	1,126,203	1,054,418	949,304	858,358	759,236	18,302	17,752	14,745	14,200	10,969	1.6	1.7	1.6	1.7	1.4
Walgreens (Yr. ends 8/31/82)	2,039,496	1,743,471	1,530,722	1,344,542	1,192,855	56,064	42,127	34,813	30,293	24,033	2.7	2.4	2.3	2.3	2.0







Add 000 to all dollar figures	Stores				
Chain	'82	'81	'80	'79	'78
Adams (Yr. ends 12/31/82)	446	481	391	412	361
Begley (Yr. ends 3/31/82)	47	51	50	50	44
Big B (Yr. ends 1/31/83)	83	N/A	N/A	N/A	N/A
Dart (Yr. ends 1/31/83)	223	171	69	75	86
Eckerd (Yr. ends 8/1/83)	1,238	1,135	1,045	957	869
Fay's (Yr. ends 1/31/83)	92	84	111	105	62
Genovese (Yr. ends 1/29/83)	66	61	58	52	49
Hook (Yr. ends 12/31/82)	272	257	257	251	236
Longs (Yr. ends 1/27/83)	173	162	149	130	120
Pay Less NW (Yr. ends 1/31/83)	147	143	144	89	80
Pay 'n Save (Yr. ends 1/31/83)	142	124	129	111	107
Peoples (Yr. ends 9/30/82)	554	527	485	399	377
Perry (Yr. ends 10/31/82)	125	117	97	64	57
Revco (Yr. ends 5/29/82)	1,593	1,514	1,247	1,143	1,030
Rite Aid (Yr. ends 2/26/83)	1,055	963	878	800	732
Rix (Yr. ends 8/30/82)	34	35	38	37	38
Thrifty (Yr. ends 8/31/82)	533	534	529	517	515
Walgreens (Yr. ends 8/31/82)	883	821	739	688	641

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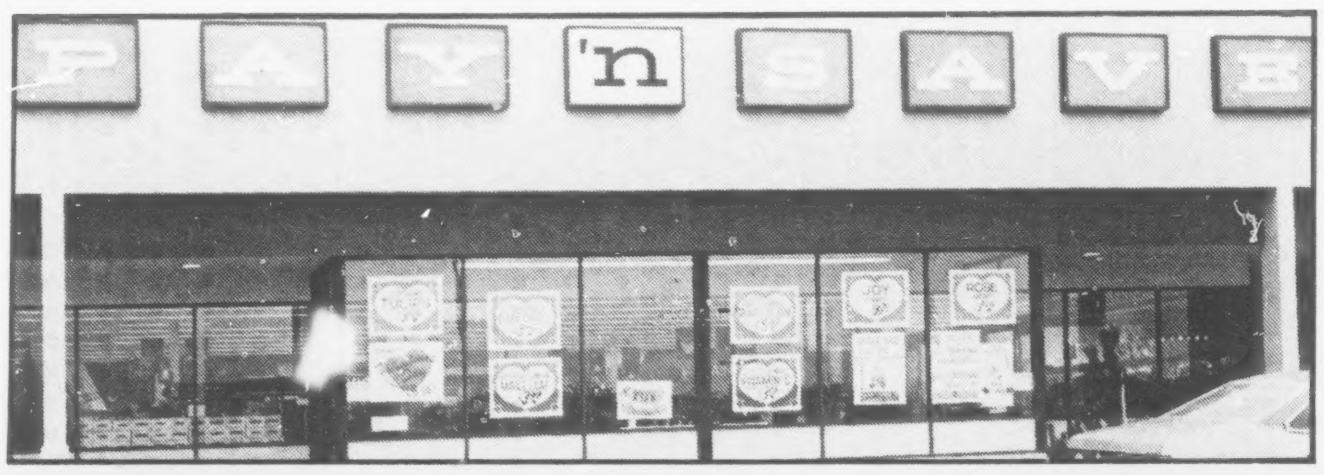
PERFORMANCE

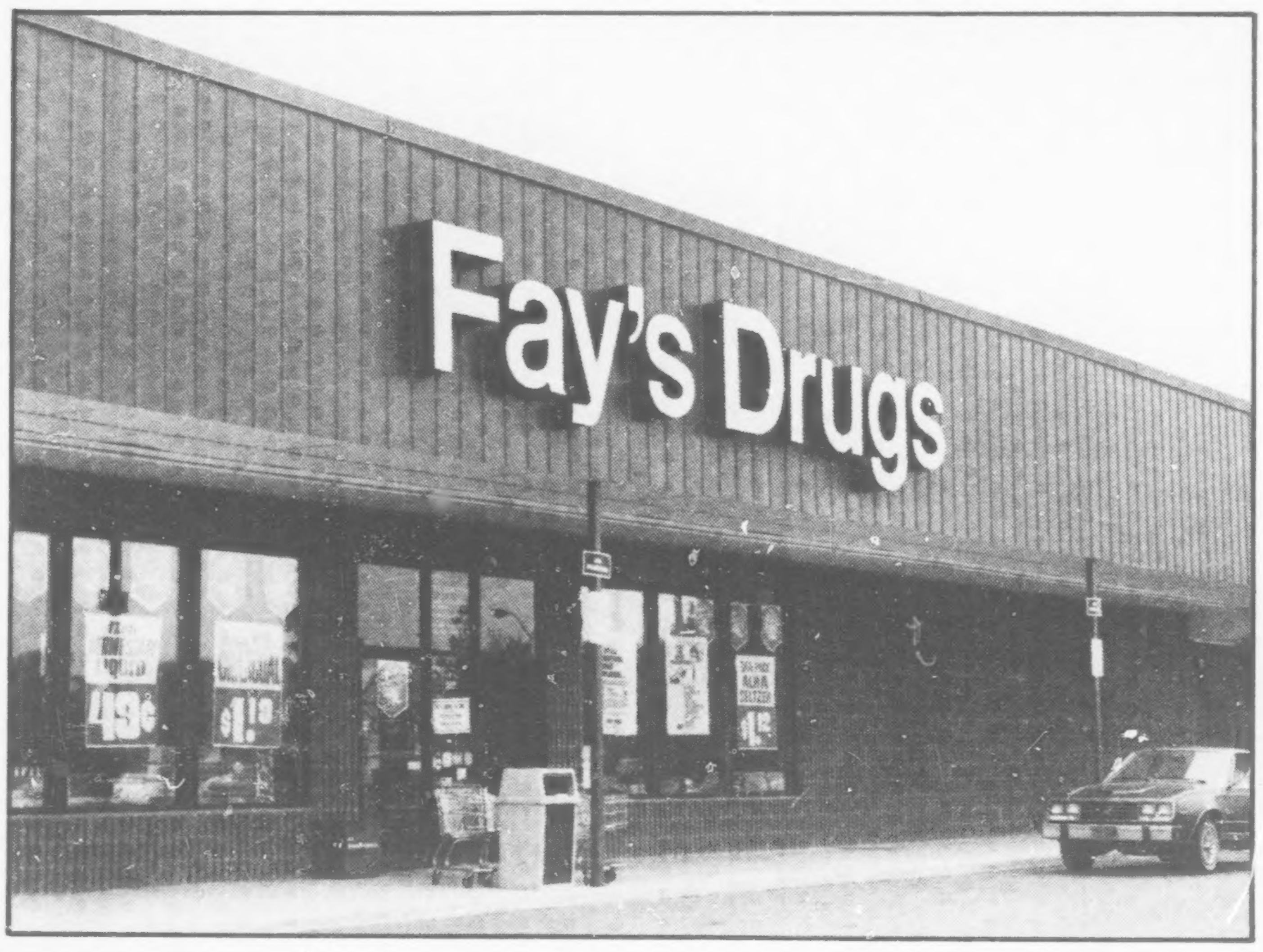
held drug store chains

Return on investment

'82	'81	'80	'79	'78
11.5	9.7	10.2	8.5	10.7
2.5	8.1	9.9	144.6	12.7
11.5	N/A	N/A	N/A	N/A
19.1	13.6	N/A	11.2	10.5
13.3	16.8	18.1	16.6	16.3
23.4	14.7	5.0	16.8	16.4
16.1	12.6	4.5	1.3	N/A
16.2	15.4	20.2	19.5	18.9
15.5	17.1	N/A	19.1	19.6
18.1	18.2	19.8	18.6	17.3
10.7	8.8	13.7	15.6	15.8
13.7	13.9	14.6	13.8	13.5
11.2	14.4	11.6	14.9	14.5
17.4	18.3	19.1	18.4	19.9
19.1	18.3	18.9	18.6	N/A
2.3	N/A	5.4	3.8	10.3
15.0	15.0	13.7	14.2	11.7
18.7	16.8	16.8	17.3	15.7



REVCO DRUGS
NEW
Food dept



Adams Drugs
prescriptions
open 24 hours
convenience foods
optical center

Sales per store					Gross margin					Expense ratio				
'82	'81	'80	'79	'78	'82	'81	'80	'79	'78	'82	'81	'80	'79	'78
$ 642	$ 504	$ 529	$ 426	$ 427	26.3	26.1	26.8	33.0	34.9	21.5	22.0	22.7	29.1	30.3
802	712	663	605	618	31.0	32.0	31.8	35.2	34.1	37.8	40.1	38.9	38.0	36.7
1,053	N/A	N/A	N/A	N/A	29.6	N/A	N/A	N/A	N/A	24.1	N/A	N/A	N/A	N/A
1,309	1,620	N/A	N/A	2,434	N/A	20.8	N/A	21.8	20.8	N/A	16.1	N/A	17.2	16.5
1,462	1,413	1,348	1,264	1,185	28.7	29.3	29.2	29.3	29.4	21.1	20.6	20.6	21.3	20.2
2,938	2,836	2,190	1,848	2,289	24.9	25.3	23.5	25.3	24.8	19.4	21.0	20.9	20.2	19.4
2,404	2,199	2,103	1,874	1,618	29.9	N/A	N/A	29.9	30.1	25.3	26.0	25.2	25.7	25.5
1,049	1,016	916	826	781	33.9	33.6	35.2	34.9	34.8	28.0	27.4	27.4	28.1	26.7
6,493	6,206	5,995	948	5,529	24.1	24.1	23.4	32.1	24.5	18.0	17.6	17.1	17.6	17.1
5,338	5,304	5,000	4,275	4,320	25.9	27.4	26.2	27.2	21.6	22.1	20.6	20.0	20.4	20.0
4,553	5,496	3,924	3,908	3,622	29.1	29.2	29.5	29.4	29.7	22.9	23.1	22.3	23.3	21.9
1,243	1,204	1,158	1,106	1,073	25.1	23.8	24.4	23.5	23.6	20.5	19.5	20.0	20.3	20.1
1,954	1,641	1,406	1,707	1,564	29.8	29.8	30.4	30.5	30.0	26.1	25.5	26.1	26.6	24.7
976	866	876	812	769	27.0	26.7	26.6	26.5	26.6	19.6	19.3	19.1	19.7	18.5
917	871	849	798	746	23.2	22.6	23.1	21.6	22.7	13.9	13.7	13.6	13.2	13.9
929	844	764	709	648	7.6	6.5	9.2	8.2	10.0	5.9	6.1	5.9	6.1	5.2
2,113	1,975	1,795	1,660	1,474	27.9	27.4	26.7	25.7	25.6	22.4	21.8	21.8	20.9	21.6
2,179	1,911	1,910	1,777	1,679	30.5	29.3	29.5	29.8	30.1	25.1	25.0	24.5	25.1	25.7

ANNUAL REPORT FOOTNOTES

* * *

- **Stores:** Counts are generally for drug stores (or leased department) unless footnote indicates otherwise.
- **Sales per store:** This figure includes drug store volume only, except where noted. Sales per store is computed on stores open at year's end, and thus the figure tends to be an understatement. Where available, sales per store open the full year have been used and noted.
- **Gross margin:** Those cases where the cost of goods sold includes other items (occupancy costs, warehousing expenses, buying costs, etc.) have been noted. The inclusion of such items in cost of goods sold reduces both gross margin and the expense ratio. Where possible, such costs have been removed and put in operating expenses.
- **Expense ratio:** The expense ratio is for general costs of operation, such as selling, general, administrative, occupancy and warehousing expenses, as percentage of sales. To make it correspond as much as possible to cash outlays for operations, depreciation and amortization have been excluded.
- **Fiscal years:** These are labeled by the year in which they end.
- **Total sales:** Corporate sales have been used; drug store volume has not been broken out from nondrug volume.
- **Net income:** This item excludes income originating from special items.
- **Return on investment:** The ROI was computed on stockholder's investment at the end of the year.
- **Adams:** Gross margin per cent is understated since cost of goods sold includes buying and occupancy expenses. The firm uses an LIFO method for its inventory valuation.
- **Begley:** All data include the results of the dry cleaning operations, except "Gross margins," "Stores," and "Sales per store," which are for the drug store operations alone. On March 31, 1980, the company began using the LIFO method of inventory valuation.
- **Big B:** Sales per store are based on total volume of all 83 outlets. Gross margins for the chain are understated because the firm includes buying and occupancy cost in its calculation of cost of goods sold.
- **Dart:** Dart would not release its financial data before presstime. For previous years, store count only included Dart Drug Stores with pharmacies. Trac Auto, Beer Wine, and Crown Book outlets are omitted from the store count. The firm adopted the LIFO method of valuing inventory in 1976.
- **Eckerd:** All data reflect corporate sales except "Sales" and "Sales per store," which are for drug units. Corporate data includes nondrug operations. During 1978 the company adopted the LIFO method of inventory valuation and earnings were reduced $3.5 million.
- **Fay's:** Fay's used an LIFO method of inventory valuation. Gross margin per cent reflects cost of goods sold; it does not include buying and occupancy expenses.
- **Genovese:** Net income is based on an LIFO inventory valuation.
- **Hook:** The firm converted to LIFO inventory valuation during 1981. As a result, cost of merchandise sold increased by $3.9 million and net income declined by $2.1 million.
- **Longs:** Depreciation is included in expenses for 1980. The firm converted to an LIFO inventory valuation during 1980. "Sales" are exclusive of funds generated through investments and interest received.
- **Pay Less N W :** The firm acquired 61 Pay Less California units and sold 14 of them during 1980. Cost of goods sold includes facilities rent and utilities. "Sales per store" is a weighted average taking into account the Pay Less California acquisition.
- **Pay 'n Save:** Data include results of all outlets except for "Stores" and "Sales per store" which are for drug stores. Hardware and apparel store operations are included in all other data.
- **Peoples:** Per cent gross margin is understated because cost of goods sold includes buying and occupancy costs.
- **Perry:** Effective July 31, 1980, Perry Drug Stores purchased all the net assets of DeKoven Drug Co. for approximately $2.8 million in cash and $1.7 million of Perry common stock. The firm uses LIFO to value its inventory.
- **Rite Aid:** Corporate sales include wholesale drug and grocery volume in addition to retail drug sales. "Sales per store" and "Stores" are for retail drug operation alone. Costs of goods sold include occupancy expenses.
- **Rix:** Sales per store include volume generated by 79 leased departments. Inventory was valued under the LIFO method during 1981. In addition per cent gross margin is understated because cost of goods sold includes some occupancy and selected store operating expenses.
- **Thrifty:** Data include results of all outlets, except for "Stores" which is for drug operations. Per cent margin is understated since cost of goods sold includes buying and occupancy expense.
- **Walgreen:** All data include results of food service and discount store operation except for "Stores" and "Sales per store," which are for drug operations.

* * *

PERFORMANCE

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Execs chosen from in-house ranks

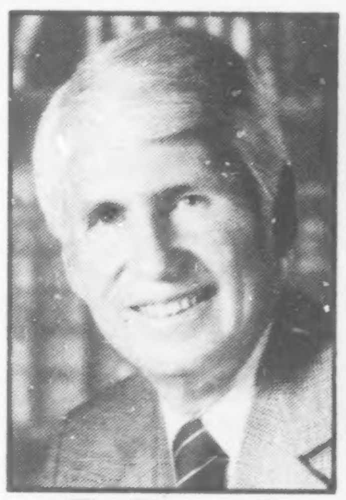
Drug chains that made key management changes in 1982 reached primarily within their own organizations to fill executive positions.

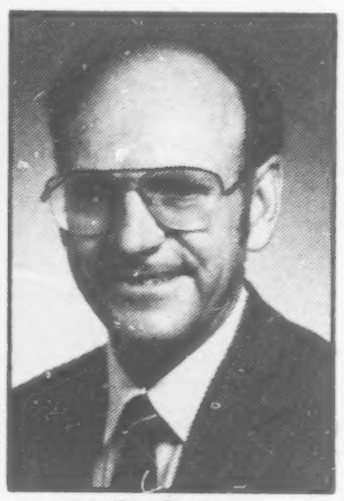
Of the chains that appointed new presidents, most advanced members of their top management teams. In addition, several middle-level executive slots were filled by going in-house.

Pay 'n Save, based in Seattle, tapped E. Ronald Erickson to serve as president. Erickson, formerly executive vp of operations, succeeded M. Lamont Bean, who retained the titles of chairman and ceo.

Calvin Hendricks, former vp-administration, became vice chairman and chief financial officer. Joe Christy, former vp-director of merchandising, advertising and distribution, succeeded Hendricks as vp-administration.

Pay 'n Save completed the realignment by naming Stan Johnson vp and regional manager of the company's northwest drug division, and Tom Lawrenson to the newly created post of vp of construction and maintenance.


E. Ronald Erickson

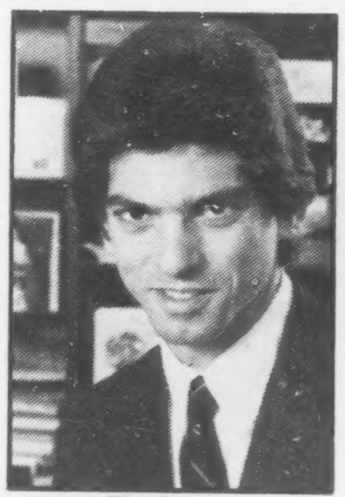

Calvin Hendricks

Dart Drug also restructured its top management in 1982. Robert Haft succeeded his father, Herbert, as the company's president and coo. Robert continued to serve as president of Crown Books Corp., a nationwide bookstore chain he founded six years ago. Herbert Haft was named chairman and ceo by Dart's board of directors.

Rounding out the Dart management team were Charles Shipe, who was named executive vp and senior operating officer, and Benjamin Kovalsky, who assumed responsibilities as senior vp of merchandising and president of Trak Auto, the chain's growing discount auto parts operation.

At Adams Drug, Charles Salmanson was named chairman of the chain following the retirement of his brother, Samuel. Charles Salmanson retained his role as treasurer. Both men along with their late brother, Leonard, founded the company in 1932.

The reorganization that took place after the change of command left Jerrold Salmanson, son of Charles, company secretary; James Salmanson, son of Samuel, executive vp, and Arthur Villeneuve, George Neville and Gary Remley senior vp's. Donald Salmanson remained president.


Robert Haft

Alvin Towle

Gray Drug Fair was one of the few chains that went outside to fill executive positions last year. Following the resignation of Fred Barney as president and chief operating officer, the chain lured Alvin Towle away from his post as president of the United States division of Shoppers Drug Mart in Boca Raton, Fla., to take over as president and general manager. Jerome A. Weinburger, former chairman and ceo of Gray Drug Stores, retired from the Sherwin-Williams Co. to join a real estate firm in Florida.

Sherwin-Williams initiated several other changes in its Gray Drug Fair subsidiary.

John A. Sirace, a real estate manager at K mart for five years, was appointed vp and divisional director of real estate for Gray Drug Fair.

In addition to its active recruiting efforts, the chain announced a number of promotions. Ronald Williams, who had been corporate controller at Drug Fair Inc. before it merged with Gray Drug in May 1981, was promoted to controller of the chain. Joseph B. Churchman was appointed executive vp and coo of the Alpha Health Services Group. The chain also appointed Irwin Livon vp of professional services.

Gray Drug Fair named new vps in its Northern, Atlantic and Florida regions. Joel Arnold, former senior vp for operations of the chain, was appointed vp of the 156-store northern region. Gerald Hansen, former executive vp of Grand Central Stores Inc. in Salt Lake City, was named vp of the Atlantic region. Gerald Weber, most recently director of operations for Shoppers Drug Mart's Southeastern U.S. region, was appointed vp of the chain's Florida region.

Also, David Heuerman, former director of personnel at Sherwin-Williams' Chemical Coatings division, was named Gray Drug Fair's divisional director of personnel.

At the Willowdale, Ontario headquarters of Shoppers Drug Mart, there was talk of expanding the company's United States operations. In what was viewed as a step in that direction, David Bloom was appointed president and ceo. Bloom succeeded Jack Gwartz, who was named vice-chairman.

The company also promoted Howard Trifler vp for retail development. Dalton VanCleave, who was recently named vp of merchandising, was appointed vp of marketing.

At Tiffany-Davis Drug Co., an eight-store chain in Eugene, Ore., Kristy Delaney succeeded John A. Tiffany as president and general manager. Tiffany, who has headed the company since 1948, was elected chairman of the board.

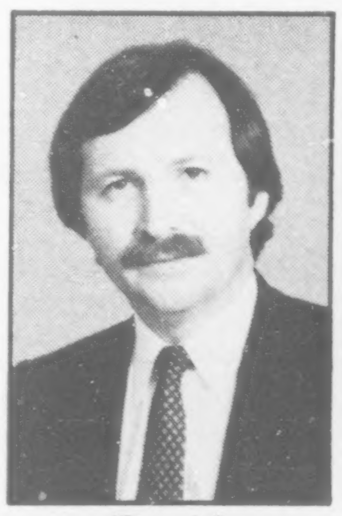
Red Owl/Snyder, the supermarket and drug store divisions of the financially strapped Wickes Cos., last year divided the two operations into separate groups. As part of the move, Donald Beeler, former senior vp and general manager, was appointed president of the Snyder drug group.

With the retirement of R. L. Call as chairman of Sav-On, the Anaheim, Calif.-based division of the Jewel Cos., Sam Parker, president and ceo and a veteran Jewel executive, became the highest ranking Sav-On official. Jewel, which has no chairman at the divisional level, eliminated the chairman position at Sav-On.

At Big "B" Discount Drugs Inc., Birmingham, Ala., Bobby Little was named vp of store operations. Little succeeded John Wingard, former executive vp. Little, who began working for the chain in 1972 as a store manager, was vp of personnel prior to his new assignment.

Walgreens last year looked outside to fill one of its executive slots. The search culminated in Michael W. Hader, former vp of international manufacturing for Abbot International Ltd., assuming the post of director of manufacturing and executive vp of Walgreen Laboratories. Walgreens also promoted John Brown to vp in charge of physical distribution, manufacturing and the chain's Walgreen Agency division.

Eckerd also recruited outside its organization to fill the vp of operations position for American Home Video. Richard L. Bowen, former executive vp of finance and operations for Harzfelds Department Store of Kansas City, Mo., was named to the post.


David Bloom

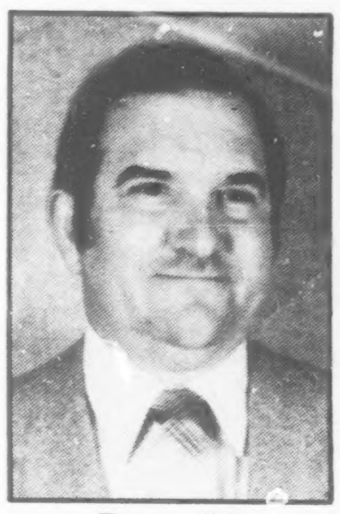
Kristy Delaney

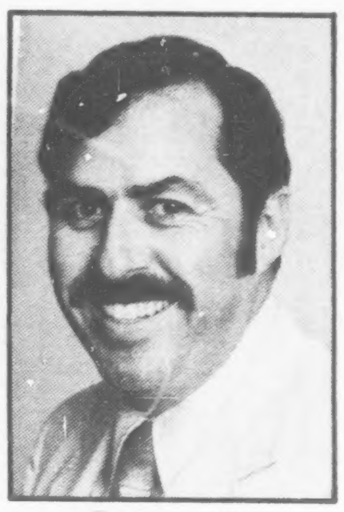
At American Stores Co., headquartered in Salt Lake City, Utah, Larry L. LaRock was named executive vp and general manager of its Rea and Derick drug stores division. LaRock, former vp and Irvine, Calif., district manager of the Skaggs Cos., replaced former Rea and Derick president and ceo Val D. Buckmiller, who resigned for personal reasons.

Revco D.S. Inc., in Twinsburg, Ohio, promoted Elliot Dworkin to vp of purchasing. Revco also appointed Jerry Wasserman vp of third-party programs. President and ceo Sidney Dworkin was named to the additional post of chairman following the death of Lee C. Howley.

Carls Drug was able to draw away Jim Whitticom from Walgreens, where he was divisional merchandising manager, to serve as senior vp of merchandising. Whitticom replaced Don Cardelle, who resigned early last year.

Hook Drug added the title of vp to Gayl W. Doster, the company's treasurer and chief financial officer.


Donald Beeler


Larry L. LaRock

The Stop and Shop Cos., which operate the Medi Mart chain of drug stores, made two key appointments during the past year. Carol R. Goldberg, former senior vp of the Stop & Shop Cos., was elected vp and coo of the company. The chain also named Robert J. Levin to the new post of vice chairman acquisition and development. Levin was formerly senior vp.

At Fay's Drug, three promotions were made on the vp level. David H. Panasci was named vp of real estate. Michael R. Winahradsky was appointed vp of distribution. Warren D. Wolfson, the company's general counsel and secretary, was also appointed vp.

McKesson Drug, based in Denver, appointed Joseph Polastri to the newly created post of senior vp of operations with nine regional vice presidents reporting to him. Polastri, a long-time employee of McKesson, was most recently regional vp/general manager of the Western region. George Momaney, formerly vp of sales merchandising, was promoted to senior vp, merchandising. Derek Hall was named senior vp, sales. Hall was most recently general manager of the Intermountain Zone.

FoxMeyer announced three executive appointments during the past year. Gary L. Wood, formerly regional controller for the Midwest area, was named corporate controller. Joseph G. Gschwendtner, who was vp of administration in Denver, was appointed corporate treasurer. Richard Lubke was made corporate vp/national sales manager.

Execs forecast sunny future

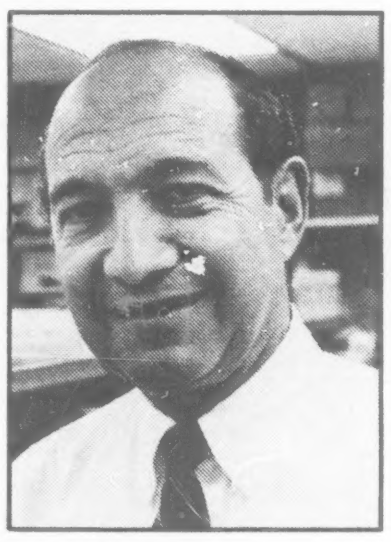
While 1982 was a difficult year for most retailers, many drug chains continued to grow at a rapid rate. Drug Store News *asked several top executives from across the country to evaluate their chain's performance during 1982. We also questioned them about what they see ahead for the remainder of 1983. Here are their observations:*

Sidney Dworkin
chairman, president & ceo
Revco D. S. Inc.

"Nineteen hundred eighty-two was a good year and it was a year of consolidation for our Skillern's acquisition. The results of the past year are further evidence that our industry is recession resistant.

"For 1983, we think we'll have an even better year if the remainder of the year is indicative of what has taken place up to now."

Alex Grass
chairman, president & ceo
Rite Aid Corporation



"We were very pleased to have achieved another record year, particularly in light of the current economy, and we are specially elated that in our first venture into another type of retailing that our achievement was beyond our expectations."

Robert M. Long
president & ceo
Longs Drug Stores Inc.

"In our fiscal year 1983 we still continued to grow, our 45th year of consecutive growth in sales and income. In spite of the year's recessionary environment, our store managers and their staffs were capable of producing these results. Our gross margins and salary and wage costs were maintained at about the same per cent as the previous year, and our sales per store and per square foot, in terms of floor space, continue to lead the industry.

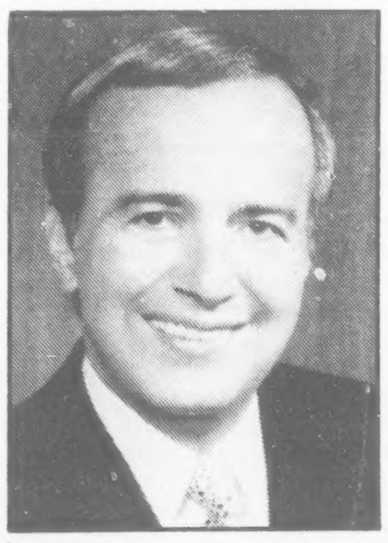
"For the remainder of the year, we are continuing to look at growth, putting in approximately the same number of stores (12) as the year before. We will be expanding our pharmacy computer system into many more stores and exploring the applications of our computer system for other than pharmacy applications. With consumer confidence improved, we look forward to increased service of the customer and growth."

Leonard Genovese
chairman & president
Genovese Drug Stores Inc.

"Nineteen-hundred eight two was super. We finished the year with an 18% increase in sales and a 48% increase in profits. We opened five stores and increased our sales per square foot to $255. Our middle of the store merchandise had a big impact on sales and profits.

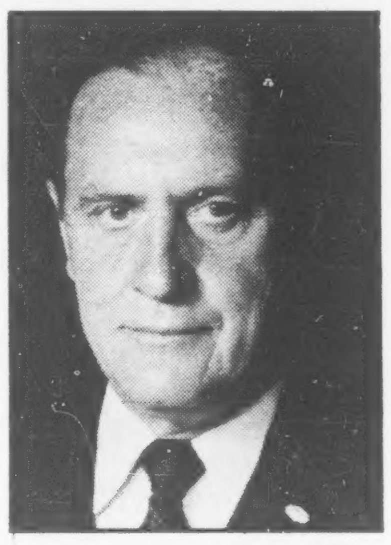
"I think 1983 will be as good as we make it. Now that the economy seems to be improving we have no excuses. The key, I believe, is to kick the hell out of sales and put a heel on expenses."

Henry A. Panasci Jr.
chairman & ceo
Fay's Drug Co. Inc.



Last year, of course, was the greatest year in the history of our company. However, it was not too surprising, since we had made a very concerted effort to reduce our expenses. In fact, our expense-to-sales ratio was reduced by 170 basis points. As far as the economy was concerned, last year was certainly bleak for most businesses. But drug stores—because our products are perceived by consumers as necessities—were able to produce outstanding results despite the poor conditions overall. General merchandise sales for us, as with many other chains, were flat during the year. But with signs of a strong recovery on the horizon, we anticipate this business will bounce back, which will bode well for our super drug type of stores. I think the chain drug industry as a whole is a very healthy industry, and in my judgment, 1983 will be an excellent year for most, if not all, the chains."

Fred F. Canning
president
Walgreen Company

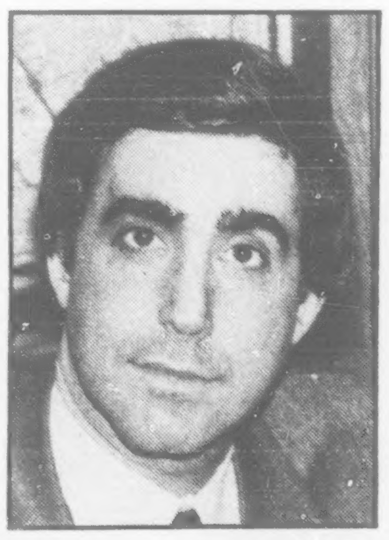


"Nineteen eighty-two was an outstanding year for Walgreens Co. Sales advanced 17% to a record $2.04 billion. Earnings were excellent, reaching a record $56,064,000. Walgreen's 1982 success reflects the strong operating performance of existing drug stores and freestanding Wag's restaurants. We also continued ambitious expansion plans during the year and opened 71 new drug stores and 12 new Wag's restaurants.

"We expect 1983 to be another very good year for Walgreens, despite lower equity income from our Mexican affiliate, Sanborns, which has been impacted by the peso devaluation. Our operating earnings are strong, and we look forward to record sales earning results for 1983.

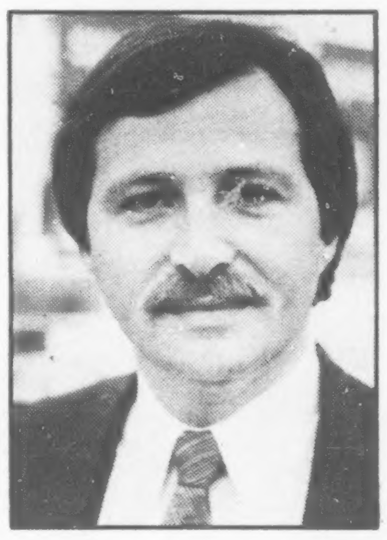
"We are continuing our aggressive store expansion and plan to open 80 new drug stores and 12 new Wag's restaurants by fiscal year end. Our expansion plans for 1983 are proceeding on schedule with 41 new drug stores already opened this year. Our new 200,000-sq.-ft. fully automated distribution center in Flagstaff, Ariz., begins operations this month, bringing the total number of company operated distribution centers to seven."

James Salmanson
vp marketing
Adams Drug Co. Inc.



"I think it's quite obvious from the reports coming out that everyone in the chain drug industry had an excellent year in terms of sales and profits. It was a difficult year for business in general, but I think the drug chains put across an outstanding performance. Their basic philosophy of convenient locations, wide merchandise selection, excellent prices and prescriptions, continue to give them an edge over other retailers. Considering the apparent turnaround in the nation's economy, I feel the chain drug industry can only have as good or better a year in 1983 as it had in 1982. It's been inherent in this industry to stay 'on top' of the business—to make the necessary changes as quickly and efficiently as possible. This is one major aspect setting us apart from many of the other retailers."

David Bloom
president & ceo
Shoppers Drug Mart



"Nineteen eighty-two was the most successful year in the history of our company for both sales and profits, thanks to our 'Thanks a Billion' marketing campaign.

"In the year 1983, the buzzword at Shoppers Drug Mart is productivity. Productivity is our operating style, our state of mind, our way of life. We have a dynamic management team to insure that our productivity targets are achieved for both people, assets, space and marketing. People will continue to be our most important asset."

Sheldon W. Fantle
president & ceo
Peoples Drug Stores Inc.

"We were very pleased with our progress in calendar year 1982 even though we were affected during the first half of 1982 by economic conditions and the weather, especially in the Midwest. The last quarter of 1982 was strong with comparable store figures indicating an increase of approximately 12%. And that trend has continued through the first quarter of 1983, and appears to be continuing in the second quarter.

"Because of the softened economy in the first half of 1982, we stressed very stringent inventory and expense control, but as the economy turned favorable and inflation sta-

Continued on page 78

PERFORMANCE

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Chain performance gets kudos

Continued from page 77

bilized, we took a more aggressive posture.

"We look for the balance of 1983 to be strong and feel that with the optimism that is appearing on the economic horizon the summer and fall seasons, including Christmas, will reflect continued growth. We are continuing our implementation of prescription terminals as well as implementing a new inventory management system utilizing IBM's Inforem II for forecasting purposes.

Robert Begley
chairman & president
Begley Drug Company

"Begley Drug Co. is optimistic about the economy and the availability of business to come this year. While we don't see any significant change in interest rates this year, we are hopeful rates will drop a point or two in 1983-84.

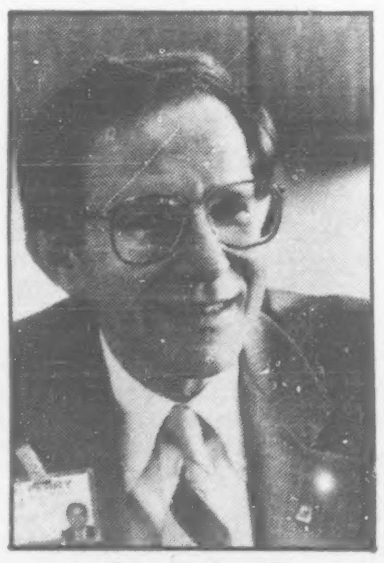
"We look for improved consumer confidence, particularly in United States products because of the tremendous emphasis being put on technology and technological progress in the United States today.

"Our emphasis for the coming year will continue to be on human resource development. We will be expanding all areas of our company, including our convalescent, convenience food and dry cleaning operations and Radio Shack stores.

"We expect home electronics to grow this year, especially telephones. In addition, sales of cosmetics, fragrances, prescription drugs and vitamins should be strong.

"In 1983, Begley Drugs will make a substantial investment in the remodeling of our stores. We believe that remodeling helps improve customer confidence.

Jack A. Robinson
chairman & ceo
Perry Drug Stores Inc.



"Perry sales last year, though below projection, were up 27% to a record $244 million. Net earnings declined 15% to $2,868,000. They were, however, the second highest earnings in Perry history, despite an economy stifled by high unemployment and dampened consumer buying attitudes.

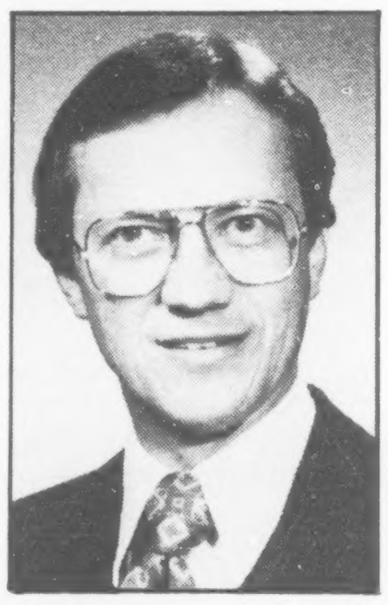
"This year much stronger sales are coming from seasoned stores and we have, moreover, reached a point in our store network growth where new stores constitute a smaller ratio of our total store count.

"Worthy of mention too is the way Perry prescription sales continue to grow. They increased last year to a record $41.9 million. In 1983, they are running at a pace better than 37% ahead of a year ago.

"We plan before 1983 year-end to install our pharmacy computer terminal system in up to 10 of our prescription departments.

"Perry in 1983 will continue to be on the lookout for acquisition opportunities, while also giving emphasis to making more profitable what we already have."

Mark Varnau
vp merchandising
Hook Drugs Inc.



"The economy is going to pick up this year because the political party in charge will make sure that it does because we're close to another presidential election.

"There is a big increase going on in OTC business, and specifically in eye care, vitamins and any product related to sports medicine. These are some of the areas we are going to take advantage of this year."

Harry Steck
sr. vp marketing
Gray Drug Fair

"Drug store consumers will continue throughout 1983 to be discreet in purchasing general merchandise and will be highly responsive to advertised specials for basic drug store core merchandise.

"There will be increased attention to health care, nutrition, self-medication and grooming needs. A relative increase in consumer expenditures for new automobiles and houses in 1983 will most likely have a negative effect on the sale of conventional high-ticket drug store merchandise."

William Ausenbaugh
executive vp
Ribordy Drugs Inc.

"We're optimistic about the end of the year. We think that there will be an upsurge in buying and that people will show more confidence.

"As for growth, we're planning to open a couple more stores before the end of the year and intensify our efforts in all areas of marketing and merchandising. In short, we intend to do whatever we must to get our share of the market.

"In the last few years, the American public has come to realize that they can get by without spending as much as they did. It's going to take a lot to get them to return to the level of spending of several years ago."

James Whitticom
sr. vp merchandising
Carls Drug Company Inc.

"I believe things will improve in 1983 and the consumer confidence level will grow, but certainly not back to the free-wheeling days of the late 1970's or early 80's.

"Our growth strategy will be to continue to concentrate on basics

"We've got to buy items that we are going to sell and try to get back as high a return on our assets as possible."

William Baxley
vp
Kerr Drug Stores Inc.

"We feel like the economy will continue to grow in our area. The reason is that we have an influx of high technology companies, military installations and universities situated here that create a stable economic sales base.

"In 1983, we will place an emphasis on the basics, but we are looking to other categories to expand sales. Telephones are one of the areas in which we see a lot of potential sales. We also intend to increase the level of sales from our existing customers through improved in-store merchandising and advertising.

"We will experience a rapid expansion in 1983 by opening six new stores by year-end, which would bring our total store count to 40."

Daniel Herrmann
president & ceo
Fay's Drug Co. Inc.

"In the early part of 1983 we expect to see more of the same recessionary environment that we experienced in 1982.

"We'll be looking more closely to the second half of 1983 and in particular to the fourth quarter and if we notice a significant upturn we'll be able to react to it. But until then our buying will remain at the same level as 1982.

"I don't see the consumer changing very drastically. Consumers have acquired some sharp buying habits and they are not going to change overnight."

"There will be a greater emphasis on price value relationship, which should have more credibility in 1983 because of disinflation."

David Eisenberg
sr. vp marketing
Peoples Drug Stores Inc.

"Inventories are still going to be a primary concern. Emphasis is still going to be on turns and return on investment analyses. We will cut out nonprofit sku's and continue fine-tuning our assortments and assortment planning.

"Seasonal merchandise has been very good to us in 1982, and so far in 1983, and I think we can take deeper advantage of this profitable area. Certainly, the areas of nutrition are still growing. Greeting cards will continue to do very well as we experiment with different size departments.

"I look for a continuing improvement in the economy, stabilization of interest rates and a modest improvement in consumer confidence during the remainder of 1983."

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

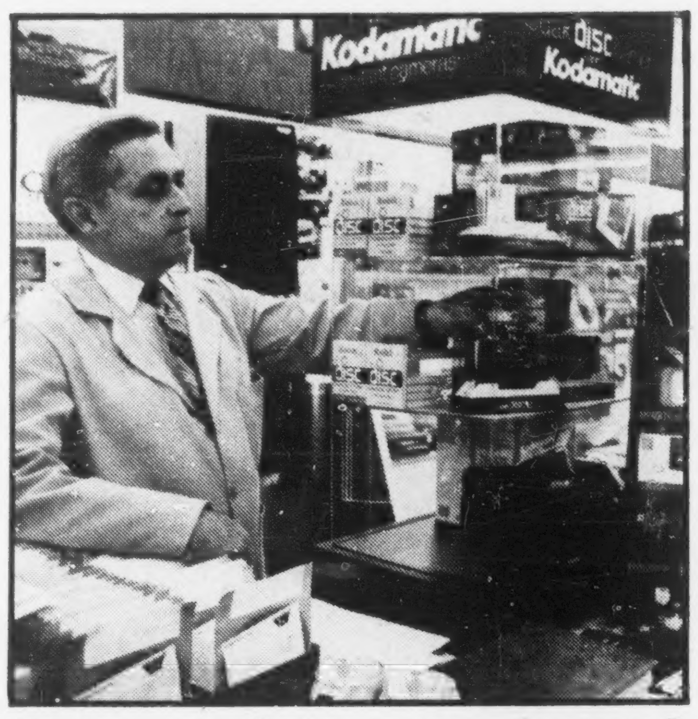
PRODUCTS

Chains sharpen marketing skills

Breakout of 1982 chain drug sales

Department	Total chain drug $ volume	% of increase	% of total sales	Gross margins	Avg. no. of turns
Prescriptions	$5,250,606,000	+16.1	18.3	35% to 40%	6.5
Drugs/Proprietaries	4,385,294,000	+11.2	15.3	30% to 35%	5.0
Toiletries	3,321,811,000	+ 8.2	11.6	25% to 30%	5.0
Cosmetics	1,637,552,000	+ 8.9	5.7	35% to 40%	2.2
Stationery	1,425,559,000	+ 8.3	5.0	40% to 45%	4.5
Tobacco	2,561,774,000	+ 6.1	8.1	15% to 20%	15.0
Candy	1,074,168,000	+ 5.3	3.7	25% to 30%	5.5
Housewares	2,115,023,000	+ 7.8	7.4	35% to 45%	3.0
Toys	900,268,000	+ 5.6	3.1	35% to 40%	4.0
Photo	1,312,916,000	+12.3	4.6	20% to 25%	9.0
General Merchandise	1,533,321,000	+ 7.1	5.4	35% to 45%	5.0
D-I-Y	761,104,000	+11.2	2.7	35% to 45%	3.0
Grocery/Liquor	1,611,037,000	+ 5.9	5.6	15% to 20%	12.0
Misc./Promotional	769,243,000	N/A	2.7	15% to 20%	N/A

Source: *Drug Store News* survey



Cameras, photo processing and film proved to be a hot property for drug stores last year. The 12.3% category sales gain was the second-highest sales gain behind prescriptions.

During 1982, drug store chains sharpened their marketing strategies and directed a great deal of effort to stress the professionalism of the drug store.

In light of the fact that many supermarkets now sell proprietaries and prescriptions along with health and beauty aids, drug stores found the need to differentiate themselves from food stores. Many launched advertising campaigns stressing not only selection and price, but also service provided by pharmacists and pharmacy terminals.

The 16.1% jump in 1982 Rx sales and the 11.1% rise in drug/proprietaries volume was partly the result of these efforts. Following is a breakdown of the performance of the major drug store categories.

Prescriptions—Prescriptions recorded total sales of $5.3 billion last year, a whopping 16.3% jump over 1981. The sales volume was boosted by both higher unit movement and a 13% price increase for pharmaceuticals. Prescriptions now account for 18.3% of total chain drug sales of $28.6 billion, up significantly from last year, when 17.5% of the business was transacted at the Rx counter.

Drugs/Proprietaries—This category registered a sales gain of 11.2% last year to $4.4 billion. Sales in drugs/proprietaries were spurred by the conversion of several products to OTC status. The trend to OTC will benefit this category in 1983 and proprietaries are likely to capture an even larger share of the chain drug business than the 15.3% recorded in 1982.

Toiletries—With an increase in traditional categories such as proprietaries and pharmaceuticals came a strong year for toiletries. Sales of toiletry items rose 8.2% to a total of $3.3 billion. This category produced 11.6% of the total volume and is the third-strongest sales producer behind prescriptions and drugs/proprietaries. It is important to note that drug chains managed to gain, while there are indications that supermarkets are slipping in toiletry unit movement.

Cosmetics—Efforts to capture a greater market share in cosmetics helped drug chains improve cosmetics sales. Volume in 1982 totaled $1.6 billion, up 8.9% over last year. Many drug chains upgraded the mix and department look last year hoping to woo more shoppers. Cosmetics account for almost 6% of total sales. Treatments, fragrances, nail products and bath preps were among the fastest growing sector of cosmetics.

Stationery/greeting cards—This important category grew in sales 8.3% to $1.4 billion. Much of the sales growth may be attributed to the popularity of hot licensed products such as Smurf and Pac-Man.

Tobacco—Drug chains managed to record a 6.1% rise in tobacco sales last year, despite national decline of 1.3% in the dollar volume of tobacco. This category produced sales of $2.6 billion and represents over 8% of chain sales.

Candy—Tampering scares shook up the candy business at Halloween last year. However, drug chains managed to secure a 5.3% sales increase by shifting buying habits and promoting candy. Sales reached almost $1.1 billion and candy, with a 3.7% share of the business, is still an important category for the drug store.

Housewares—Chain drug housewares sales advanced 7.8% to $2.1 billion, making housewares one of the top dollar producing categories in drug stores. Lifestyle merchandise, including plants, furniture, storage items, gourmet kitchen goods and clocks, fared well last year.

Toys—Electronics took over in toys in 1982, helping to push chain toy sales 5.6% to $900.3 million. Ignited by the popularity of video games, toys should come close to reaching the $1 billion mark.

Photo/incl. processing—This category is a hot property for drug chains—sales jumped a hefty 12.3% last year. This was the second-highest sales gain behind prescriptions. Pacing growth in this $1.4 billion market for chains was the Disc camera and photo processing. The photo category now represents 4.6% of chain volume.

General merchandise—General merchandise sales rose 7.1% to $1.5 billion as chains added and improved the general merchandise mix to reflect shopper's needs. General merchandise accounts for 5.4% of overall volume.

Do-it-yourself—Thanks to gains made by the auto department, DIY sales jumped 11.2% to $761.1 million. DIY maintained its market share and still accounts for 2.7% of chain drug sales.

Groc./food/liquor—Growth of this category slowed down a bit last year. After showing a 13.5% sales advance last year, sales rose only 5.9% in 1982. Total sales reached $1.6 billion and chains are still bullish about the potential of this category. Several chains enlarged food sections or created mini-food departments during 1982. Food produced 5.6% of overall volume.

Prescriptions
16
17
8

Overall, in 1982, drug store chain garnered sales increases in every category.

Chains jump into computer arena

Pharmacy computer systems made a significant impact on chain drug stores in 1982, as a number of companies, including Thrift, Fay's, Medicare-Glaser, Pay Less NW and Big B, completed or nearly completed chainwide installation.

"In all my experience in pharmacy, computers are the most dramatic innovation I've seen," said John Young, a Pay Less executive. "Our pharmacists say they wouldn't do without their computer systems."

As a result of improved management capabilities, more drug chains than ever are jumping into the pharmacy computer arena. Walgreens, for example, has 500 of its stores on a communicating stand-alone Intercom system. And the balance of the chain's more than 800 drug stores will have computers in place late this year.

"We just completed training in our Miami-area stores," said Janet Kelly, a spokesman for the chain. "Tampa and Orlando are next on the agenda."

Revco has added computers to its 70-store base and plans to add 480 more. "We found that computers make a big impact," said an executive for the chain which has the largest number of drug stores in the world. "Pharmacists now tell us that if their computer is removed, they'll go with it."

Longs, Peoples, SupeRx, Eckerd, Thrifty and Medicine Shoppe International were other companies in various phases of pharmacy computer development last year.

Longs expects to have its pharmacy departments totally computerized by adding one store a week to the lineup. One of the chain's main goals is the generation of "actionable" data.

"The creation of management information by our computer systems is a major benefit at store level," said Steve Roath, vp and director of professional affairs. "It will improve our ability to manage at store level."

Executives at the Walnut Creek, Calif.-based chain eventually want to include sales data, purchasing history, space allocations and ROI information in the system.

Peoples Drug Stores, realizing that training represents a major contribution to a computer system's success, have established a program in its Toledo, Ohio-based Lane division. The coordinator in charge of training is also responsible for development and installation of terminals at store level.

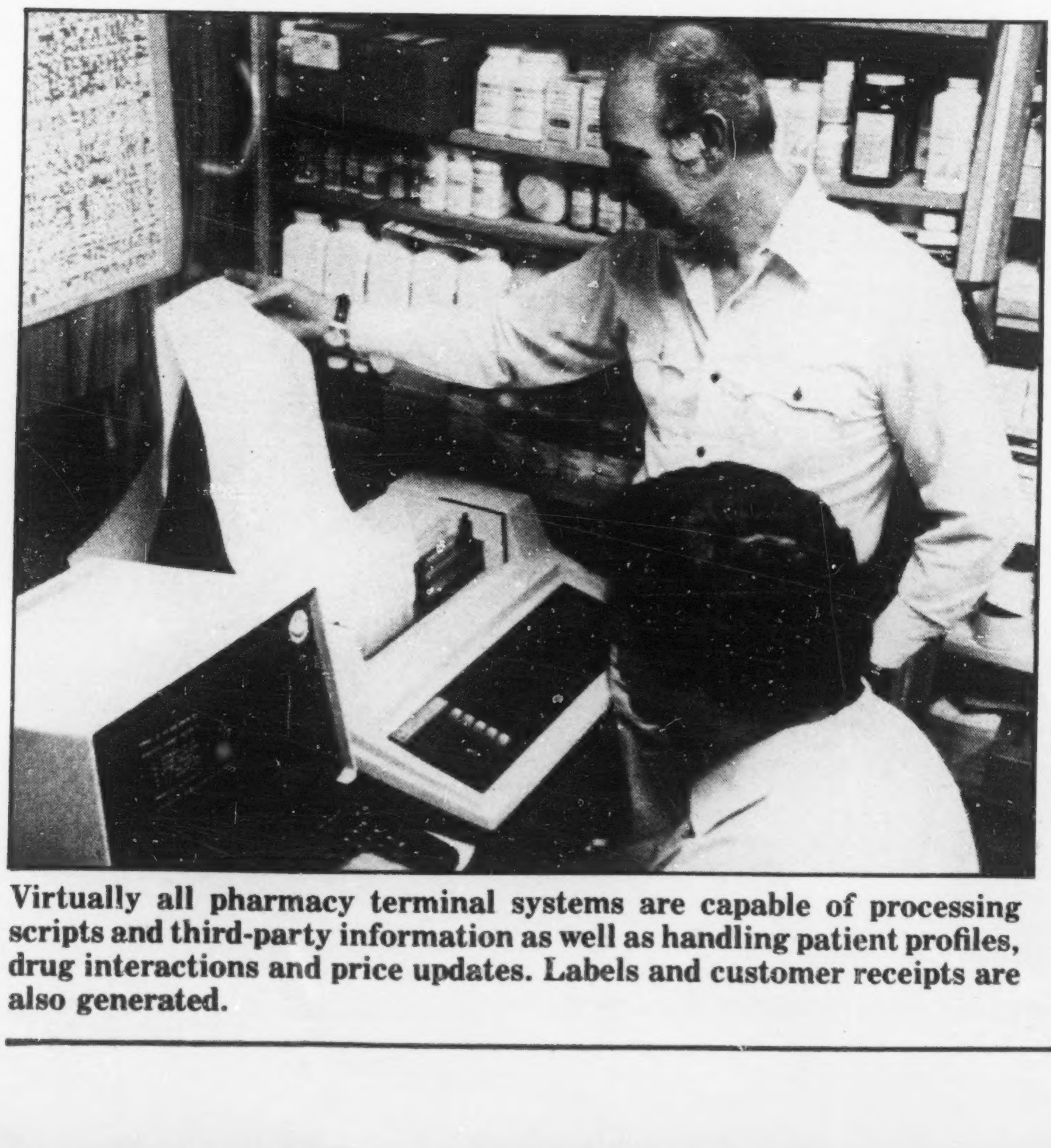
SupeRx has completed evaluation of a stand-alone system and has set a target of 200 installations a year. The Kroger drug store division initially began installing systems in its Ohio stores. A nursing home package, which adds to the system's capabilities, is planned for the future.

Eckerd, in addition to expanding its pharmacy computer system, is also looking at more electronic management aids. The chain rolled out its hand-held electronic order system in its Delaware division and in the Charlotte, N.C., district. By the end of 1983, it's predicted the system will be chainwide. The EOE devices reduce out-of-stock positions and increase productivity at store level by cutting order cycle time. With the system, it's possible to obtain an order from the chain's warehouse within three days after store inventory is keyed in.

Pharmacy computer installations 1981 vs. 1982

Chain	Location	1981	1982
Albertson's Southco	Orlando, Fla.	30	60
Apex Drugs	Novi, Mich.	0	27
Arbor Drugs	Troy, Mich.	0	28
Austin Drugs	Hicksville, N.Y.	0	1
Bartell Drug Co.	Seattle, Wash.	4	6
Begley Drugs	Richmond, Ky.	0	4
Big B	Birmingham, Ala.	72	83
Big V Pharmacies	London, Ontario	20	28
Boots Drugs	Toronto, Ontario	10	12
Crown Drug	Advance, N.C.	0	1
Drug Fair New Jersey	Branchburg, N.J.	20	20
Eckerd Drug Company	Clearwater, Fla.	5	20
Fay's Drug Company	Liverpool, N.Y.	84	92
Grand Central Inc.	Salt Lake City, Utah	11	11
Gray Drug Fair	Cleveland, Ohio	15	31
Harco Drug Inc.	Northport, Ala.	0	1
Hook Drugs	Indianapolis, Ind.	18	31
Keltsch Brothers Inc.	Fort Wayne, Ind.	1	5
Kinney Drugs	Gouverneur, N.Y.	15	23
Lewis Self-Service	Sioux Falls, S.D.	5	5
London Drugs Ltd.	Richmond, British Columbia	9	18
Long's Drug Company	Walnut Creek, Calif.	0	11
May's Drug Stores	Tulsa, Okla.	7	10
Medicare-Glaser	St. Louis, Mo.	40	44
Medicine Shoppe International	St. Louis, Mo.	31	76
Muir Drugs	Grand Rapids, Mich.	12	21
Otto Drugs	Louisville, Ky.	3	9
Pathmark	Woodbridge, N.J.	2	5
Pay 'n Save	Seattle, Wash.	75	90
Peoples Drug Mart	Vancouver, British Columbia	0	18
Perry Drug Stores	Pontiac, Mich.	15	15
Peterson Drug Company	Oakfield, N.Y.	1	1
Pharm-Escomptes Jean Coutu	Longueil, Quebec	62	62
Revco Drugs	Twinsburg, Ohio	10	70
Ribordy Drugs	Valparaiso, Ind.	3	7
Rite Aid Corp.	Shiremanstown, Pa.	0	36
Rix Corp.	Auburndale, Mass.	0	2
Sentry Drug Stores	Romulus, Mich.	5	11
Shoppers Drug Mart	Toronto, Ontario	25	56
Standard Drug Co.	Richmond, Va.	0	1
SupeRx Drug Co.	Cincinnati, Ohio	32	42
Super X Drugs Ltd.	Downsview, Ontario	7	13
Thrift Drug Company	Pittsburgh, Pa.	250	320
Thrifty Drug Stores Inc.	Minneapolis, Minn.	3	4
Tom Thumb-Page	Dallas, Tex.	4	4
Walgreen Company	Deerfield, Ill.	50	450
White Drug Enterprises Inc.	Jamestown, N.D.	2	2

Source: *Drug Store News* survey



Virtually all pharmacy terminal systems are capable of processing scripts and third-party information as well as handling patient profiles, drug interactions and price updates. Labels and customer receipts are also generated.

Going a step further, Eckerd also tested an electronic purchase order system designed to speed processing from the chain's warehouse computer through an intermediary to a vendor's order-entry system. The three-way purchase order system is designed to cut vendor delivery time significantly, decreasing out-of-stocks and increasing inventory turnover.

"We want to maximize sales and minimize inventory," said the chain's merchandising manager.

Thrifty Drug has also tested an in-store computer system. At the end of the year the chain began evaluating a second system with additional applications, including energy management and electronic payroll reporting.

Other chains, such as Gray Drug Fair, Pay 'n Save and Rite Aid have continued testing and/or installing pharmacy computers.

Growth in the pharmacy computer field has not been limited to the United States. Chains north of the border have also expanded their computer counts. As in this country, emphasis is on processing third-party scripts. Shoppers Drug Mart, Pharm-Escomptes, Big V, Peoples Drug Mart, Super X Drugs Ltd., London Drugs Ltd., and Boots have pharmacy computer systems operating in their stores.

Virtually all the pharmacy terminal systems are capable of processing scripts and third-party information as well as handling patient profiles, drug interactions and price updates. Labels and customer receipts are also generated.

With the capture of computer-generated data, more and more chains are discovering they have a treasure trove of information at their disposal. And with such data available, drug chains are seeing the emergence of a key new executive—the management information systems (MIS) specialist.

During 1982, MIS specialists communicated more with decision-makers than at any time in the past. Their interpretation of computer data played a large role in operations, merchandising, distribution and pharmacy.

In short, computers gave senior managers a powerful tool to improve bottom-line performance.

1983 ANNUAL REPORT OF THE
CHAIN DRUG INDUSTRY

PRODUCTS

Higher counts, prices pep up Rx

Selected new drugs launched during 1982*

Generic Name	Brand	Therapeutic Use
acyclovir	Zovirax	Antiviral—herpes
benoxaprofen	Oraflex	Anti-inflammatory
diflunisal	Dolobid	Analgesic/Anti-inflammatory
diltiazem	Cardizem	Antianginal (calcium channel blocker)
estramustine phosphate sodium	Emcyt	Antineoplastic
gemfibrozil	Lopid	Agent for hyperlipidemia
guanabenz acetate	Wytensin	Antihypertensive
isotretinoin	Accutane	Antiacne Agent
malathion	Prioderm	Pediculicide
niclosamide	Niclocide	Anthelmintic
nifedipine	Procardia	Antianginal (calcium channel blocker)
pindolol	Visken	Antihypertensive (beta blocker)
prioxican	Feldene	Anti-inflammatory
sulfadoxine/ pyrimethamine	Fansidar	Antimalarial
trazodone HCl	Desyrel	Antidepressant

*These are new chemical entities. Other products in unique dosage forms such as nitroglycerine patches—Nitrodisc, Nitro-Dur, and Transderm Nitro—were also launched during 1982. New drugs available only via an injectable route of administration are omitted from this list.

Average script tops $10

	1982	1981	1980
Average Rx price	$10.17	$9.04	$7.72
Average scripts per store	126	122	119
Average daily volume per store	$1,281	$1,103	$842
% new scripts	55	53	55
% refills	45	47	45

Source: *Drug Store News* survey

A higher script count and increased prices propelled chain drug prescription sales to a 16.1% gain last year. According to a *Drug Store News* survey, the price of an average script increased more than $1.10 to $10.17, while a typical chain drug store dispensed 126 scripts a day. What's more, the average chain pharmacy unit generated $1,281 in revenue a day.

The main impetus behind the industrywide sales surge was the number of new pharmaceutical product launches. "New products costing a lot more money set this past year apart," said the professional director of one major chain.

Another executive added that 1982 was one of the few times in history that advancing prescription prices outstripped the consumer price index (CPI). During 1982 the CPI for urban consumers climbed 3.9% while the producer price index (the prices manufacturers charge pharmacies and wholesalers) increased 11.7%. The CPI for drugs climbed 12.2%.

In the past, price gains of consumer goods far outstripped the price index for drugs. But with new products costing retailers upward of 30¢ to 50¢ per dosage unit, the CPI disparity disappeared.

The new products produced some important spinoffs too—a shift to OTC products and cost containment from third parties.

Along with the addition of many new products to pharmacists' shelves, industry shifted some traditional prescription-only drugs to OTC status.

And as more and more products are slated for OTC status, an increasing number of consumers are consulting their pharmacists about the correct use of these seemingly new drugs—yet another spinoff of the new drug blitz.

Consumers concerns are obvious: OTC products can potentially cause interactions with prescription products and others demand special information.

It is estimated that in more than 95% of all cases where they perceive health problems, consumers don't consult physicians. Since pharmacists are usually the last professionals to see consumers before drug treatment begins, they can play a major role in patient care. "When an OTC is purchased, pharmacists must be prepared to provide clinical and product information," said James T. Doluisio, former chairman of the American Pharmaceutical Association.

Recognizing this trend, chain drug companies have offered consumers additional information about their OTC as well as their prescription drugs.

Direct-to-consumer chain advertising about prescription drugs represents a third spin-off of the new product boom. Several major drug chains have initiated consumer information programs. Peoples ran newspaper ads featuring acyclovir as a treatment for herpes.

After receiving F.D.A. clearance, Eckerd established a prebooking system which encouraged consumers to bring acyclovir scripts to stores even though the product wasn't carried in stock. After the launch when product was available, pharmacists contacted patients advising that the drug was in stock and could be acquired.

And on the West Coast, Pay 'n Save tried to attract pharmaceutical manufacturers to join a program of direct public service advertising aimed at the chain's customers. The advertising, consisting of five commercials and a print campaign, focused on the positive aspects of medicines.

Meanwhile MSD and Boots bypassed their more traditional physician-only approach when products such as ibuprofen and pneumovax were launched.

Roche and Pfizer used an institutional approach instead in their direct communications with consumers. Pfizer pushed its "Healthcare Series" and Roche emphasized its "How to Books." Both public service campaigns were designed to inform consumers about drug treatment options, disease etiology and improved health care.

Another spinoff resulting from the launch of new products was third-party administrators' efforts to contain costs. Perhaps because third-party scripts increased during 1982, chain executives say they are faced with one form of cost containment program after another.

Other executives expressed anger that some third-party administrators are pushing the concept of "usual and customary" or "cost plus a fee"—whichever is a lower concept. Execs say the insurance industry will have a fight on its hands if the "lower-of" concept is implemented.

Home health mkt. beckons

Drug chain execs are focusing more attention on home health care lines in an effort to take advantage of two important trends:

(1) The growth of that segment of the American population that requires more home health products and services—the elderly, and (2) the increasing emphasis on home health care as an alternative to expensive hospital and nursing home care.

Home care services are one of the few areas that remain untouched by Reagan Administration health care cost cutters.

Industry observers agree that the key reason for their optimism about market growth is the aging of the population, since at least 50% of the portion of those over 65 who require home care service aren't getting it.

"With adults living long, the market for health-related devices will continue to grow by leaps and bounds," says one chain drug exec.

In addition to the aging of the population, another factor contributing to the market's growth is the consumer's desire for self-sufficiency.

As one chain drug exec puts it: "When an alternative exists, patients resist being confined in hospitals."

The need to be self-sufficient and ambulatory is reflected in unit sales of some of the leading home health care products. Wheelchairs and ambulatory aids are the largest unit volume products, according to the exec, and bath safety equipment places in the top 10.

Says the exec: "It may be psychological. Patients feel an extra measure of security and support with these devices."

Industry sources say the leading convalescent aid categories in terms of dollar volume include hospital beds, incontinence products, ostomy supplies; orthopedic garments/appliances, oxygen units, rehab/exercise equipment and TENS units.

Self-diagnostic equipment is also considered an integral part of the retailer's merchandise mix. This includes blood-pressure monitors, blood-glucose detection devises, thermometers, stethoscopes, and pregnancy test kits.

Interest in these products can be traced to patients' desire to monitor and control their conditions. Drug execs are increasingly stocking such items in the home health care centers.

Chains involved in the home health care market include Hook Drug, which sells such products through eight freestanding units plus convalescent aid sections in each drug store; Begley Drug, which markets products in four home health care centers; Eckerd, which has two freestanding stores and plans for a third; Peoples, which will soon open its second freestanding unit while searching for other locations. Revco, Walgreens and Rite Aid all operate one unit each.

STEADY
YOURSELF

Health care services are one of the few areas that remain untouched by Reagan Administration cost cutters.

Diet concerns boost OTC dept.

Strong gains in vitamins and weight reduction products—the result of increasing concern over total body fitness—led the way to an 11.2% advance in chain drug proprietary department sales last year.

Proprietary sales reached $4.4 billion, and with average gross margins in the 30% to 35% range, the department yielded as much as $1.5 million in gross profit dollars for the chain drug industry.

While the Food and Drug Administration's OTC Review Board—which authorizes prescription drug switches to OTC status as well as approving ingredients for OTC use—was responsible for some of the sales growth, the real impact of the OTC switches will not be felt until this year.

Vitamins led the proprietary department with a 13.4% gain in sales, followed by reducing products, family planning products, baby needs, cough/cold, feminine hygiene, and dental items.

Dominating the department, vitamins garnered nearly $440 million in chain drug sales. Recognizing the potential in this category, more chains are devoting entire areas or displays to the "healthy" consumer image associated with vitamin use. Pharmacists are being used as the strong professional backup needed to counteract efforts by supermarkets to muscle in on this huge market. Strategic location of vitamin counters near the pharmacy department and expanded selections are both aimed at promoting drug stores as the professional and complete vitamin source.

Because of price shopping by consumers, private label vitamin sales were up in 1982, but branded products still represented the biggest share of drug store vitamin sales.

Cold capsules and tablets, with 8.3% of department volume, were up 11.9% over 1981 figures to $363.8 million, as some products were shifted from prescription status to OTC.

1982 Proprietaries department highlights

Chain drug proprietaries sales	**$4,385,294,000**
1982 percentage gain	**+11.2%**
Percentage of total chain drug sales	**15.3%**
Typical gross margins	**30% to 35%**
Industry gross profit yield from proprietaries last year	**$1,315,-$1,535,000,000**
Average no. of annual dept. turns	**5**

1982 Proprietaries department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Analgesics	$414,007	+10.6	9.4
Dental/toothpaste/ powder/dentures	402,424	+11.4	9.2
Vitamins	439,672	+13.4	10.0
Baby needs/diapers	376,771	+12.2	8.6
Cold caps/tabs	363,757	+11.9	8.3
Antacids	296,979	+ 9.7	6.8
Fem. hygiene/ pregnancy tests	323,973	+11.6	7.4
First Aid	269,006	+10.1	6.1
Laxatives	268,087	+10.5	7.9
Cough syrups/ expectorants	258,926	+11.1	5.9
Reducing products	192,269	+12.4	4.4
Footcare products/ misc./athlete's foot	137,083	+11.1	3.1
Mouthwash/breath products	147,390	+10.6	3.4
Lozenges/rubs/nasal sprays	108,147	+ 9.2	2.5
Prophylactics/family planning	152,421	+12.4	3.5
Ointments/acne preparations, creams & suppositories	64,762	+ 6.1	1.5
Wet & Drys	30,728	+ 4.3	0.7
Miscellaneous	138,769	+10.6	3.2

Source: *Drug Store News* survey

Industry sources predict that sales of baby needs will continue to grow at a rate of 15% a year.

The analgesics category was off slightly from 1982 as a percentage of total department sales, partly reflecting the fallout from the Tylenol incident of late fall. Renewed confidence in this, as well as other newly repackaged products, will be better reflected in 1983 sales figures.

Baby care items captured more of the proprietaries department sales in 1982, and industry sources predict that sales in this area will continue to grow at a rate of about 15% per year.

Though diapers and formulas are high-turn items, stiff supermarket competition forced drug chains to cut margins for these products. Sundry items, such as disposable bottles, nipples and pacifiers, brought in margins of 40% and more. These accessory items were responsible for much of the category's gains and drug chains acknowledged this by placing more emphasis on the sundry area.

Feminine hygiene, cough syrups and footcare products were all up more than 11% in sales over 1981. With sales steady at 7.4% of the department, feminine hygiene carried $324 million in store sales. Cough syrups and expectorants were up by 11.1% in 1982 to $258.9 million and footcare was up by 11.1%.

Reducing product and prophylactic sales each increased by more than 12% in 1982 and now account, respectively, for 4.4% and 3.5% of department sales. While diet aids are considered a seasonal item, more concern with total body fitness has strengthened this category's sales.

Family planning products, such as contraceptive foams, gels, suppositories and condoms, showed sizable growth at 12.4%. More outfront marketing and promotion of these items partly accounts for the advance. Chains identified the category as a viable source of revenue, if promoted tastefully.

Until now, most prescription to OTC switches affected the cough and cold area, but 1983 reviews will also cover analgesics, many topical products, foot care, weight control, acne products and dental needs.

Mouthwashes and lozenges showed moderate growth in 1982, as sales rose 10.6% and 9.2% respectively. Though not leading the department in sales, the ranking of these two categories held stable within the department at 3.4% of department sales for mouthwashes and 2.5% for lozenges.

A traditional drug store category—ointments and acne products—showed modest gains in 1982 of 6.1% over 1981 sales. At $64.7 million for chain drug stores, the category maintains a 1.5% share of department sales.

Dominating the proprietaries department, vitamins garnered nearly $440 million in chain drug sales.

Ethnic, skin care pace toiletries

Pacing toiletry sales in 1982 were two categories which have been coming on strong in the past few years: skin care and ethnic products.

Sales of handcreams and skin care products rose 10.1% to $395.5 million in chain drug stores last year—the greatest increase within the category. This area now accounts for the largest percentage, 11.7%, of the $3.3 billion toiletry market.

Skin care has become such an integral factor in the toiletries market because of an increased concern for body care, not only on the part of women but also men.

Meanwhile, sales of ethnic hair care items continued on an upward trail. The trend was aided by the fact that more and more chains decided it was time to add ethnic products to the mix or enlarge their ethnic selection. Ethnic hair care items are in demand—they add exclusivity to the store and provide margins higher than conventional hair items. Walgreen and Osco are two chains that have enlarged their ethnic mix, and Revco has also recently made a greater commitment.

The result was a 10.1% jump in sales of this category, including black and Hispanic cosmetics. The category generated $205.8 million in chain drug sales and accounted for 6.2% of department sales. Fueled by popular hair styles such as the curly look, ethnic should continue to be a strong performer at drug chains.

Sun items hot

Groups such as the Skin Cancer Foundation have done a good job of alerting customers to the dangers of overexposure to the sun. But it's not just the threat of cancer that has increased consumer concern. It's also the aging effects of the sun. As a consequence, suntan/sunburn products are moving off shelves. In 1982, chain drug stores reaped sales of $153.5 million in this area, a 9.9% increase over 1981. This category now accounts for 4.6% of toiletry sales. Retailers note that the biggest gains are being produced in the sun block areas and in tanning lotions with high SPF (sun protection factors). Many customers buy more than one suntan product because they purchase lower SPF's as their tans get darker.

1982 Toiletries department highlights

Chain drug toiletries sales	$3,321,811,000
1982 percentage gain	+8.2%
Percentage of total chain drug sales	11.6%
Typical gross margins	25% to 30%
Industry gross profit yield from toiletries last year	$830,-$997,000,000
Average no. of annual dept. turns	5

1982 Toiletries department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Handcream/skin care	$395,451	+10.1	11.7
Deodorants	388,962	+ 8.5	11.7
Men's toiletries	386,557	+ 8.1	11.6
Shampoos	354,674	+ 7.9	10.8
Hair color	319,752	+ 7.6	9.6
Rinses & conditioners	227,047	+ 8.1	6.8
Body creams & lotions	153,452	+ 7.8	4.6
Ethnic (incl. black cosmetics)	205,750	+10.1	6.2
Hair notions	131,701	+ 7.3	4.0
Razors/blades incl. disp.	158,464	+ 8.3	4.8
Hair sprays	129,112	+ 8.1	3.9
Suntan/sunburn	153,464	+ 9.9	4.6
Shave creams	48,267	+ 6.7	1.5
Perms/straighteners	27,704	+ 4.8	0.8
Depilatories	11,272	+ 2.9	0.3
Miscellaneous	225,527	+10.5	6.8

Source: *Drug Store News* survey

Deodorants, long the dominant force in toiletries (but now unseated by skin care), continued to pack a wallop in chain drug stores, with sales up 8.5% to $389 million. Deodorants receive a great deal of department space allocation and produce 11.7% of toiletry sales. Roll-ons, sticks and nonaerosol formulations continue to be favored.

Hair wars continue in hair care with hordes of new products introduced yearly and no clear market leaders in this dynamic category. Chain drug sales for 1982 rose 7.9% in shampoos, 8.1% in rinses and conditioners, 7.6% in hair color, 4.8% in perms and 8.1% in hair sprays.

While shampoos accounted for 10.8% of sales, conditioners are rapidly gaining in popularity. Most people now use both a shampoo and a conditioner. Conditioners and rinses, with sales reaching $227 million, represented 6.8% of all sales. Shampoos checked in at $359.7 million last year.

The best-selling shampoos and conditioners were those aimed at specific hair needs as well as those that got their start in professional beauty salons.

Hair color remains a strong category at drug stores. This is because while consumers are accustomed to buying shampoos or conditioners at supermarkets, few of them really feel comfortable buying hair color products at a food store. What's more, the selection is usually limited at supers. Thus, 1982 hair color sales rose 7.6% to $319.8 million. The hair color category is due for growth because of the increasing number of older people—prime customers—in the population.

Hair sprays had been stagnant for many years as women rebuffed the stiff look. But companies have since reformulated the sprays to provide a more natural result. Spray sales in chain drug stores increased 8.1% to $129.1 million.

Perms and straighteners, however, failed to match the hefty sales gains posted in other years when the home perm craze was at its zenith. Chain drug perm sales rose only 4.8% to $27.7 million last year. Drug stores, though, still account for about 60% of the perm business. Many retailers expect perms to show a resurgence in 1983, however.

Hair notions rose 7.3% as chains enlarged the selection to offer two-tiered pricing. Colored combs and other decorative barrettes were popular.

Men's toiletries had a respectable year, increasing 8.1% to $387 million. This category accounted for 11.6% of total sales. Retailers report that toiletry items are a staple department and the essential products must be available.

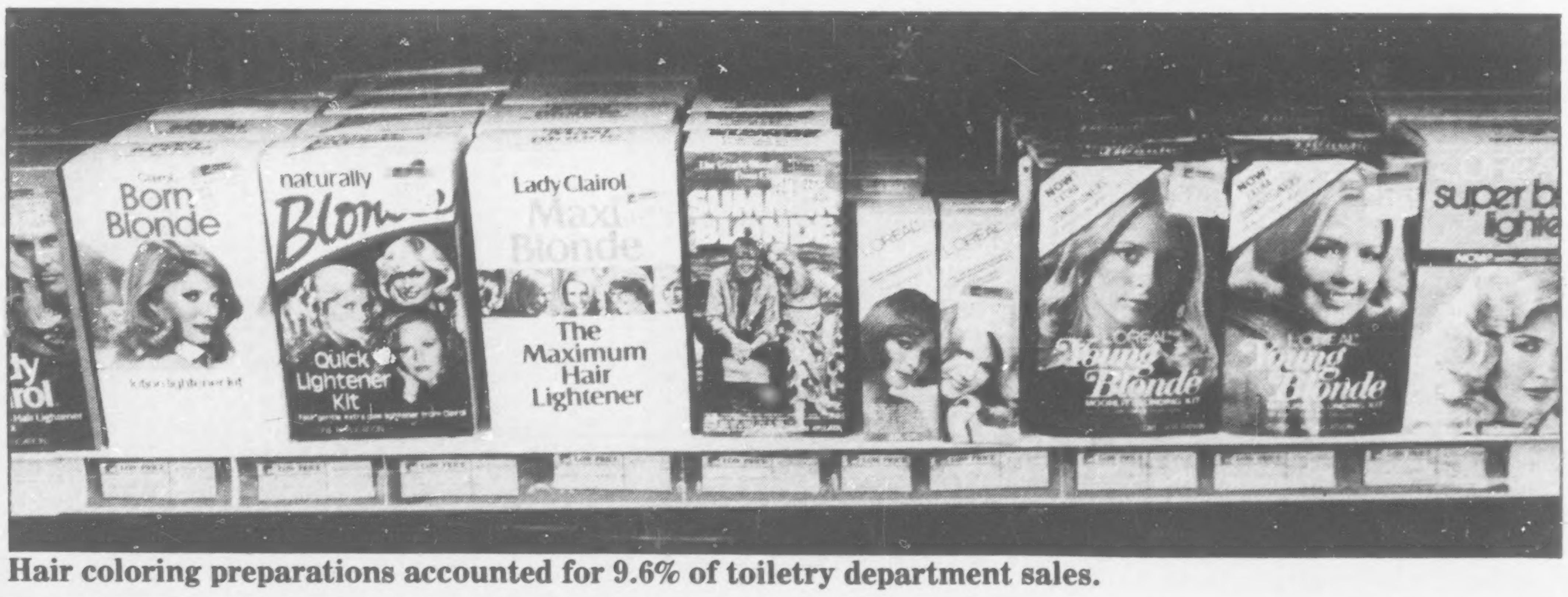
Today's man is leaving his electric and replaceable blade shaver in the medicine cabinet in favor of a disposable blade. Together, blades and disposable shavers produced sales of $158 million, an 8.3% jump over 1981. A great deal of the increase can be traced to unit movement associated with disposables.

Deodorant sales were up 8.5% in 1982.

Shave creams grew a bit slower, rising 6.7% to a total of $48.3 million. Most feel that men shave less often and don't go through an entire can of cream as fast.

Body creams and lotions enjoyed a good year in chain drug stores. Sales were up 7.8% to $227 million. Women still hadn't quite accepted depilatory products; volume rose only 2.9%. Waxes, however, gained in popularity.

The total toiletry market, accounting for 11.6% of chain drug sales of $28.66 billion, swelled 8.2% last year. It is the third strongest department within the chain store.



Hair coloring preparations accounted for 9.6% of toiletry department sales.

Cosmetics: 5.7% of total chain sales

During 1982, drug store retailers found themselves at a crossroads in cosmetics. Many of them found that it was time to upgrade the department's look and mix. This was done to set the departments apart from those in supermarkets and also to cater to department store shoppers who more and more are frequenting drug chains.

Thus, drug stores attracted new shoppers during 1982 and encouraged others to trade up. While overall cosmetics sales were estimated to be flat or even down 1% or 2% for the year, drug chains managed to prosper. Chain drug store cosmetics sales outpaced inflation, rising 8.9% above 1981.

Total volume

Total volume reached $1.6 billion last year and cosmetics accounted for 5.7% of total chain sales. Although drug stores want to increase the share cosmetics add to sales, 1982 wasn't the year for this move. Also, the category continues to be a slow turner—annual turns per year average only 2.2. But, on the whole, drug chains were pleased to maintain overall market share in cosmetics. While supermarkets have made a strong push into cosmetics, chain drug stores remain the consumer's No. 1 outlet for cosmetics.

Part of the success of the drug chain has been in providing a broader selection and greater service than supermarkets. Drug stores, for example, have had better luck in selling treatments (although there is a long way to go before rivaling department stores). Treatment sales were up 10% in chains last year to $243.4 million. Treatments now account for almost 15% of cosmetics sales in chains. Sales were ignited last year by the fact that more women became concerned with care of their skin and because chains added more treatment lines.

1982 Cosmetics department highlights

Chain drug cosmetics sales	**$1,637,552**
1982 percentage gain	**+8.9%**
Percentage of total chain drug sales	**5.7%**
Typical gross margins	**30% to 40%**
Industry gross profit yield from cosmetics last year	**$490,-$655,000,000**
Average no. of annual dept. turns	**2.2**

1982 Cosmetics department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Fragrances	$484,870	+ 8.3	26.6
Toilet Water/ cologne	394,924	+ 8.4	24.1
Perfumes	89,946	+ 7.8	5.5
Pegged cosmetics	363,504	+ 7.6	22.2
Facial treatments	243,375	+10.1	14.9
Bath preps	151,499	+ 9.0	9.3
Lipsticks/lipcolor	151,080	+ 8.2	9.2
Nail polish/nail preps	139,517	+ 9.2	8.5
Makeup, powder, cream & liquid	103,707	+ 8.2	6.3

Source: *Drug Store News* survey

The last obstacle for chains to conquer in treatments is education of the consumer. To effectively sell treatments, either service has to be provided, or products need to be self-explanatory.

Another winner for chains last year was the fragrance category. Channels for obtaining designer fragrances have been cleared and chains have jumped at the chance to sell high-ticket goods to eager consumers. These pricey brands sold especially well at Christmas and so did low-end, novelty fragrance sets. These polarized trends were major contributors to the $484.9 million fragrance sales produced in 1982, an 8.3% increase over the previous year.

Toilet water/colognes accounted for $394.9 million in sales and perfumes contributed $89.9 million. Together, they produced 26.6% of the total chain drug cosmetics sales.

Women are aiming for a polished look . . . from head to toe, including nails. The nail category showed strong gains in 1982, as women embarked on nail care regimens. More hardeners, implements and colors were purchased, leading up to a 9.2% sales gain. Nail care and color sales reached $139.5 million, or 8.5% of total chain cosmetics volume. Nail color sales were boosted by some repackaging and more aggressive promotions during the year.

Color promotions, however, are not the automatic sales they used to be. Women no longer rush out to buy the newest season shades. Rather, they buy what they think is best for their own looks. Today's shopper is more selective and cautious. Still, lip color managed a somewhat successful year, and sales rose 8.2% to $151.1 million.

Eye color, makeups, creams and liquids also had a modest year with sales rising 8.2% to $103.7 million. These items represent 6.3% of all cosmetics sales. Retailers feel all segments of cosmetics moved better in 1982 thanks to a return to merchandising cosmetics by line rather than category.

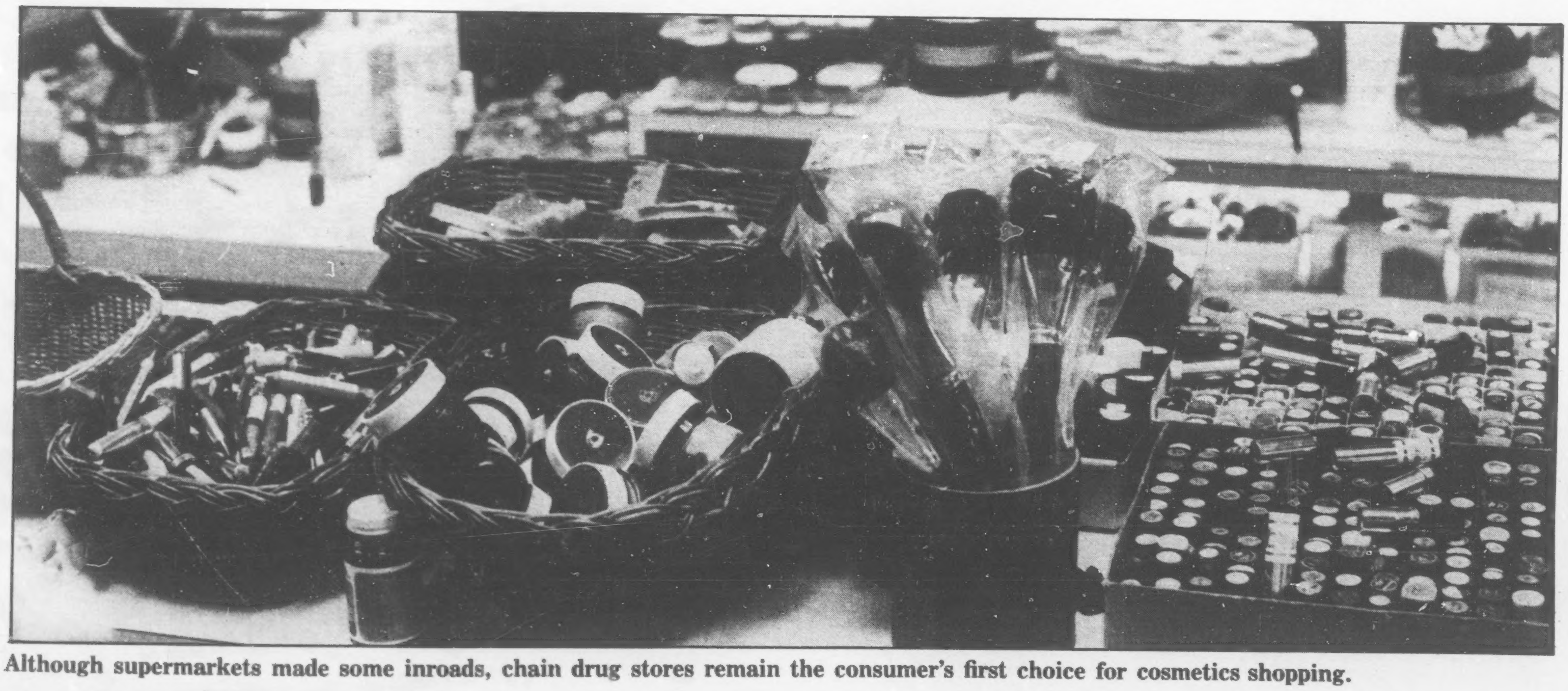
The theory behind this is that if a woman comes into a store to purchase one brand of mascara, she may see the brand's other products and buy additional items. Chains including Gray, Walgreen and Eckerd use this merchandising technique.

Pegged cosmetics, overall, grew 7.8% to $363.5 million. Chains are finding that buying is polarized because the fastest-growing areas are either high ticket or inexpensive. Pegged brands still command a large share of the business with sales accounting for 22.2% of the cosmetics volume in chains.

Finally, a much ignored category came on strong in 1982. That category is bath preps. While bath preps are not normally thought of as cosmetics, the category contributed 9.3% of cosmetics sales, with a 9% volume increase to $151.5 million.

During 1982, chains improved the merchandising of these items and promoted them heavily. It is a category targeted for growth for the rest of the decade. Some chains are using the boutique concept and creating special bath boutiques to sell the goods.

In cosmetics, chains are eagerly awaiting the latter part of 1983. Many of them feel that efforts to upgrade cosmetics will pay off at that time. The hot categories for the future include treatments, fragrances, nail and bath.



Although supermarkets made some inroads, chain drug stores remain the consumer's first choice for cosmetics shopping.

Cards bolster stationery sales

1982 Stationery department highlights

Chain drug stationery sales	$1,425,559,000
1982 percentage gain	+8.3%
Percentage of total chain drug sales	5%
Typical gross margins	40% to 45%
Industry gross profit yield from stationery last year	$570,-$641,000,000
Average no. of annual dept. turns	4.5

1982 Stationery department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Cards	$481,449	+8.6	33.8
School, home/office	363,344	+8.7	25.5
Books & magazines	256,153	+8.4	18.0
Writing instruments	99,977	+8.1	7.0
Social stationery	74,658	+6.9	5.2
Gift wrap	87,261	+7.7	6.1
Disposables/party supplies	51,382	+8.8	3.6
Art supplies	11,271	+2.6	0.8

Source: *Drug Store News* survey

Led by greeting cards, party supplies and an increasing home office business, stationery sales increased 8.3% last year to produce $1.4 billion in total chain drug store sales.

As usual, greeting cards led the section with $481.5 million in sales, an 8.6% increase from the 1981 level. Greeting cards were responsible for slightly more than one-third of all stationery department sales.

The $1.4 billion in sales were more than half the dollar volume generated by all greeting card outlets. The United States market last year generated between $2.4 billion and $2.5 billion.

Christmas continues to account for 40% of all greeting card sales, but boxed card sales remained flat at some chains. Picking up the slack were higher-priced individual cards.

More expensive cards

Retailers and manufacturers said there is a trend among younger people away from mailing Christmas cards to everyone. Instead, they are mailing more expensive cards to their close friends and relatives.

However, an aging population in the United States is becoming more conservative and more card conscious.

Valentine's Day is the fastest growing greeting card season. An estimated 900 million cards were sold this year.

Also fueling growth in this department is more aggressive marketing by chains, such as moving greeting cards to heavily trafficked areas. Until the past few years, many chains had looked at the card department as an anchor to draw traffic.

Now, many chains are moving these departments and reaping impulse sales. Moving the department to more visible locations in some chains last year boosted card sales 20% chainwide.

The second biggest contributor to the stationery department last year was the school home and office supplies section, which generated $363.4 million at chain drug stores, or 25.5% of all stationery sales.

These products grew 8.7% last year, with a big boost coming from the growing number of people who work out of their homes.

These people, whether they are bringing home work from their offices or operating their own businesses, are turning to chain drug stores for the supplies they need.

Several chains are adding special commercial sections that cater to businesses. The sections usually are next to the typical stationery department.

Commercial items that are doing well at drug chains include manila envelopes, large yellow legal pads, filing boxes and index cards.

Margins beckon

Merchandisers see this as an area for growth because the business has been dominated by commercial stationery stores that operate at gross margins of 70% to 80%.

Chain drug stores entering the commercial stationery market can sell the same products at margins of 33% to 50%.

Writing instruments were the next largest category in the stationery department last year, accounting for nearly $100 million in total chain drug store sales, or 7% of the market. The total was an 8.1% gain over 1981 sales.

Designer writing implements continued to proliferate last year, giving consumers the option to buy ballpoint pens that ranged from less than a quarter to solid gold sets that retail for $10,000. Filling the gap are markers, porous points pens, roller point pens, mechanical pencils and fountain pens.

Erasable pens move

New types of points continue to be introduced, and erasable ink pens are the fastest growing group. Introduced three years ago, erasable ink pens now capture 30% of the market, and new manufacturers are entering the arena.

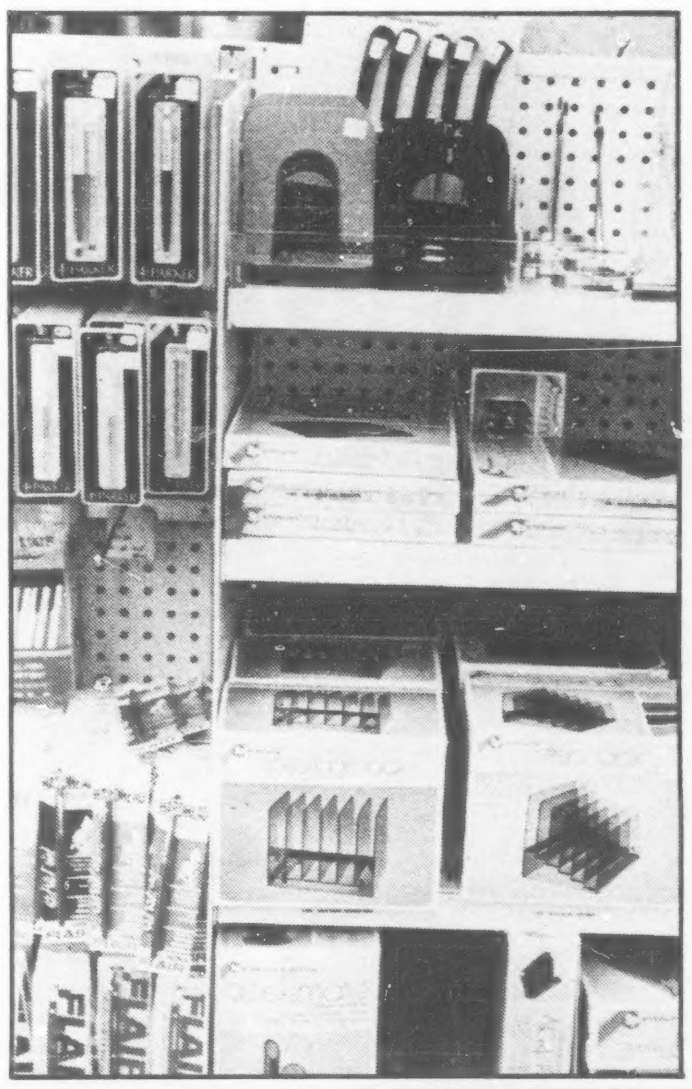
Following writing instruments was gift wrapping, which grew 7.7% to $87.3 million in sales last year. The category, which was characterized by increased licensing, accounted for 6.1% of chain drug store sales.

Social stationery last year increased 6.9% to $74.7 million, or 5.2% of stationery sales.

The fastest growing stationery category last year was disposables and party supplies, which gained 8.8% to generate $51.3 million in chain drug sales. The category accounted for 3.6% of all chain drug store sales.

Licensing continued to expand in this area, and many retailers relied on their greeting card suppliers for their party supplies.

In some markets, however, the relatively high price of licensed party products—as much as 20%—found some resistance from consumers. Chains in these regions added lower end lines to the mix. Some of these lower end lines sold for as little as one-third of the price of licensed products.



School, home and office supplies generated 25.5% of all stationery sales.

Overall, chains found the licensed products productive and promoted them.

Chains also generated multiple sales by creating mini-departments, which are collections of several products using the same license.

Chains were divided between going with more trendy products, such as personalized balloons, and sticking to basic items such as paper plates, paper cups, napkins, hats and horns.

While many chain merchandisers felt it was important to latch onto trendy items early, others feared getting stuck with merchandise they could not sell.

The remaining stationery category, art supplies, grew 2.6% last year to generate total chain drug sales of $11.3 million, or 0.8% of a typical store's sales.

HUMOROUS
cosmetics
BIRTHDAY FOR RELATIVES
BIRTHDAY FOR F

Greeting cards were responsible for slightly more than one-third of all stationery sales.

Chains clean up with housewares

Drug chains have found their special niche in the $40 billion housewares business. Chains discovered success with lifestyle items, strong promotional goods and basics. These areas helped chains produce 1982 housewares sales of $2.1 billion, a 7.8% gain over 1981.

Most importantly, chains emerged from the year with clean inventories, and buyers were in good shape to gear up for 1983. Housewares, once an auxiliary department, now is a major contributor to drug store volume. In fact, housewares accounted for 7.4% of chain sales in 1982. That's more than traditional categories such as cosmetics, stationery/greeting cards and candy.

The key selling success for drug stores has been to get in early on hot-selling products, offer basics and retain modest price points. For example, drug chains did a great job with the popular air fresheners and are currently selling many lifestyle goods. Lifestyle merchandising has become a buzz word in the last few years as people move into smaller living areas and need storage items and products that are easy to move. Also, people have a renewed interest in sprucing up their homes.

To this end, items including furniture, storage bins, decorative items and gourmet products enjoyed a strong year. In fact, house and kitchen gadgets/gourmet items recorded the highest sales gain of 8.4% last year. Many shoppers are trading up in kitchen goods and found drug stores a convenient shopping place. Chains had success with microwave cooking items and electronic kitchen gadgets. This category produced sales of $138.9 million, or 6.6% of toal housewares volume.

Small electrics

Personal care items paced sales in small electrics, a category that grew to $243.7 million last year, up 8.3% over 1981. The big news was dryers and curling brushes. This area was so strong that many chains brought in a controlled brand to offer shoppers two-tiered pricing. Walgreens was one example of this, and the chain's Perfection line (made for Walgreens in the Orient) sold extremely well.

1982 Housewares department highlights

Chain drug housewares sales	**$2,115,023,000**
1982 percentage gain	**+7.8%**
Percentage of total chain drug sales	**7.4%**
Typical gross margins	**35% to 45%**
Industry gross profit yield from housewares last year	**$740,-$950,000,000**
Average no. of annual dept. turns	**3**

1982 Housewares department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Plastics & rubber housewares	$478,640	+7.6	22.6
Household supplies	279,349	+7.7	13.2
Small electrics	243,703	+8.3	11.5
Glass/dishware/ cookware	234,024	+8.0	11.1
Paper products	183,188	+8.1	8.7
House & kitchen gadgets/gourmet	138,875	+8.4	6.6
Lighting products	110,135	+7.5	5.2
Picture frames/ mirrors	86,849	+7.2	4.1
Insecticides	76,673	+6.9	3.6
Furniture/outdoor furniture	64,425	+8.1	3.0
Plant/plant care	59,272	+8.3	2.8
Bath/closet	41,855	8.0	2.0
Shoe care	26,167	+5.6	1.2
Miscellaneous	91,860	+7.8	4.3

Source: *Drug Store News* survey

Rubber goods and plastics still control the lion's share of the housewares business. Again, chains tried to give customers a choice of price points and many plastic and rubber promotions were held throughout the year to spur sales. This category accounted for 22.6% of overall sales for a total of $478.6 million.

The second strongest department was the staple household supplies. These items—brooms, dust pans and mops—continue to round out the housewares selection. Household supplies produced 13.2% of the total category volume. This category increased in volume 7.7% for a total of $279.3 million.

Paper products

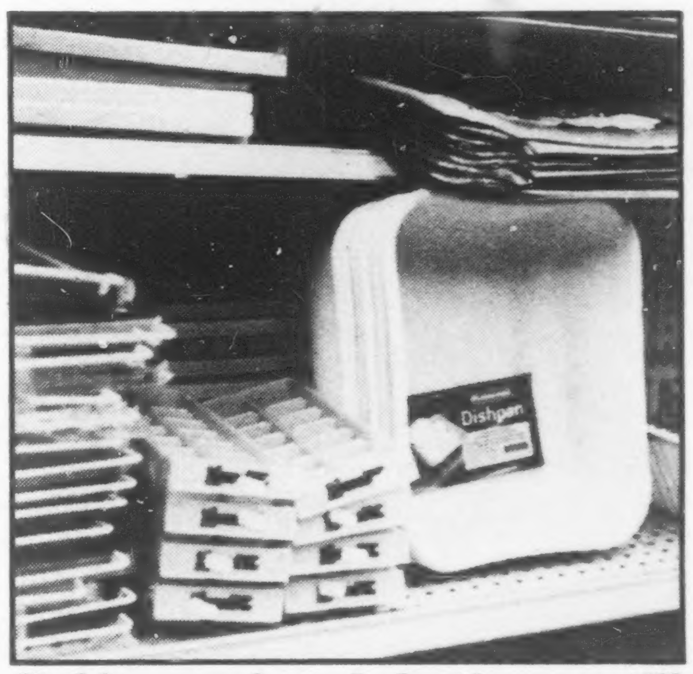
As always, paper products packed promotional punch for drug chains. Paper products are popular ad items for retailers, and these strong promotions helped push 1982 sales 8.1% above last year's. Paper goods generated revenues of $183.2 million and accounted for 8.7% of housewares sales.

Inexpensive storage-type furniture that can be taken apart and reassembled sold well for drug chains last year as part of a trend to lifestyle merchandise. Furniture and outdoor furniture sales grew 8.1% to $64.4 million. While many of the smaller chains shied away from this merchandise, larger chains and superstores reported brisk sales movement, especially when used on an advertisement.

Glass/dishware/cookware sales jumped 8% to $234 million. Many chains pared this category down to include only the best sellers. The result has been equal movement in less space. This category accounted for about 11% of 1982 chain drug housewares sales.

Lifestyle merchandise also includes plants, a category coming on strong. Sales of plants and plant care advanced 8.3% last year to $59.3 million, as more retailers added live plants to their mix.

Lighting products have become more important for the chain drug stores, and many outlets now carry full departments with bulbs and fixtures merchandised on manufacturer fixtures. Sales of this category now account for 5.2% of chain drug housewares volume, making it the sixth strongest area. Sales rose to $110.1 million during 1982, a 7.5% increase over 1981.



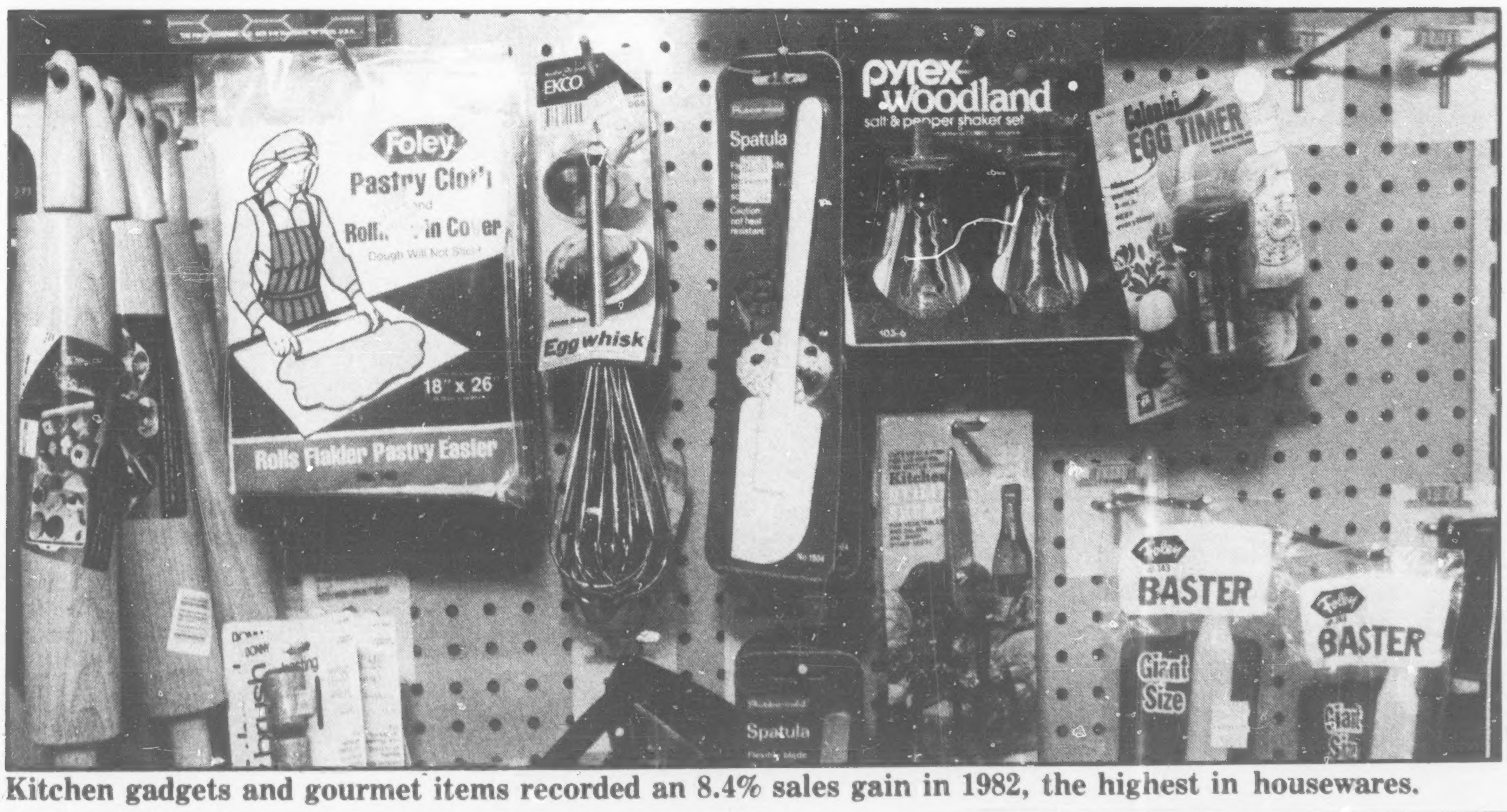
Rubber goods and plastics are still the top sellers in housewares.

Other lifestyle areas showed strength during the year, including picture frames/mirrors and bath/closet, which rose 7.2% and 8%, respectively. Frames and mirrors produced sales of $86.9 million and bath/closet $41.9 million.

Shoe care is also monitored as a houseware product and sales of polishes and laces rose 5.6% to $26.2 million. Lace sales were bolstered by licensed characters such as Smurf and Strawberry Shortcake.

In fact, licensing became a major factor in housewares during 1982. Characters such as E.T. and Garfield popped up on everything from glassware to picture frames. But retailers were careful to choose only the proven winners.

Finally, a number of chains used a department-store boutique approach in their housewares departments, with special color schemes and even wicker helping to upgrade the image. This trend to the mini department is expected to continue this year.



Kitchen gadgets and gourmet items recorded an 8.4% sales gain in 1982, the highest in housewares.

Candy sales survive tamper scare

Chain drug candy sales increased a moderate 5.3% last year as the wave of product tampering incidents that struck OTC drugs in 1982 sent Halloween candy sales plummeting by as much as 40% to 50% after reports of tainted candy circulated throughout the country.

In 1982, sales increases in nearly every major candy category—including bagged, candy bars, seasonal, chewing gums and boxed candy—were on the average more than 50% lower than the 11.7% increase in 1981.

Most drug retailers agreed that candy volume would have been considerably higher had it not been for the rash of product tampering reports prior to Halloween. Many retailers pointed out that Halloween candy sales can contribute as much as 7% to 10% of a chain's annual candy sales.

However, warnings from public officials about tampered candy and a steady stream of media horror stories kept consumers away from retail candy aisles in droves. Sales of bagged candy, normally the most popular selling candy during the Halloween season, plunged.

Boxed candy, traditionally selling best around Valentine's Day, inched above the $100 million mark for the first time.

Across the country, Halloween sales fell as much as 50%. Walgreens reported its Halloween candy sales were off by 20%. At Perry Drug, based in Pontiac, Mich., candy sales declined 25%. The stories were the same everywhere. Suburban stores seemed to fare the worst, but downtown stores also suffered badly.

Penn Keller, president of the 11-store Valco Drugs, said that candy sales in the chain's suburban stores were 40% lower than the previous Halloween. Valco's urban stores were off by 30%. Keller attributed the difference to the fact that office workers, who constitute a major portion of the chain's urban candy buyers, were generally undeterred by the negative publicity.

1982 Candy department highlights

Chain drug candy sales	$1,074,168,000
1982 percentage gain	5.3%
Percentage of total chain drug sales	3.7%
Typical gross margins	25% to 30%
Industry gross profit yield from candy last year	$269,-$322,250,000
Average no. of annual dept. turns	5.5

1982 Candy department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Bagged	$295,804	+5.3	27.5
Seasonal	278,084	+4.1	25.9
Candy bars	260,846	+6.4	26.0
Boxed	104,053	+5.0	9.7
Chewing gums	112,912	+5.5	10.5
Other	4,339	+2.9	0.4

Source: *Drug Store News* survey

Keller added that he did not expect Hallloween candy sales to return to the chain's normal level next year. But overall, Keller said, candy sales last year were excellent. With the exception of Halloween, seasonal candy promotions were strong, he said.

"The two weeks before Easter ran as well as ever," Keller stated.

Some more hopeful

Not all drug retailers are as pessimistic about next Halloween as Keller. One candy buyer from a major chain said that he had received assurances from several candy manufacturers that the candy industry will mount a consumer awareness campaign next Halloween to educate consumers about product tampering in much the same manner that manufacturers of OTC drugs have informed consumers about product package safety.

Fortunately, candy sales rebounded following the Halloween debacle. Several drug retailers were able to use unsold stock for subsequent Thanksgiving and Christmas promotions. In addition, candy manufacturers took back much of the unsold candy from many chains.

Category performance

In terms of category performances, candy bars posted the biggest sales increase in chain drug stores. Candy bar sales rose 6.4% from a year ago to $260.8 million. Bagged candy and seasonal candies, reflecting the sales loss from Halloween, showed more moderate increases. Sales of bagged candies were up 5.3% to $295.8 million. Seasonal candy, which rose 12% in 1981, increased only 4.1% last year, to $278.1 million.

Drug retailers continued to promote candy heavily last year. Roy Depolite, candy buyer for K&B, pointed out that because candy is an impulse item consumer interest should be stimulated by promotions.

Several candy buyers reported successful results when candy promotions were tied to couponed print advertising campaigns by manufacturers.

While most drug retailers were confident that candy sales will pick up next year, there were some who are unsure how substantial the increase will be. The Halloween incident aside, per capita candy consumption has generally declined during the last decade, although per capita consumption of candy rose slightly in 1981 to 16 lb. a year.

During part of 1982, candy sales received a shot in the arm when sugar and cocoa suppliers rolled back prices. For the most part these savings were passed on to retailers, who in turn passed them on to consumers. By year-end, however, chocolate prices were again inching upward. There also were price increases in chewing gums and breath mints.

New candy introduced

There were several new candy introductions in 1982. The entries included carob-coated peanuts, honey-covered raisins and peanuts and flavored popcorn. Several candy manufacturers also brought out larger size variations last year.

Boxed candy sales in chain drug stores last year inched above the $100 million mark for the first time. Boxed candy, which traditionally sells best around Valentine's Day, produced sales of $104.1 million in 1982 and generated 9.7% of department sales. Sales gains from Valentine's Day helped stimulate this category, many retailers reported.

In 1982, chewing gum sales rose 5.5% to $112.9 million last year, accounting for 10.5% of total chain drug candy sales.

Despite the somewhat weak performance of candy in 1982, retailers believe the category will show a marked improvement this year. Most retailers predicted that sales gains will return to double-digit levels set in 1981. To accomplish this, however, seasonal profits will have to stage a dramatic upturn.

Junior Mints
Tootsie Roll
36 BOXES
36 BOXES
York
REAL CHOCOLATE COVERED MINIATURE MINT PATTIES
HERSHEY'S mr. Goodbar
24300
36 BARS
24100
HERSHEY'S
36 BARS

Candy bars posted the largest sales category increase—rising 6.4% from last year to $260.8 million.

Chain tobacco sales top nat'l avg.

Increasing prices helped to increase dollar sales of tobacco and tobacco products in chain drug stores despite a shrinking unit market for these products.

For the cigarette and tobacco industry, 1982 marked the first time in 12 years that sales failed to escalate. Instead, industry sales for 1982 were $622 billion, down 1.3% from more than $630 billion in 1981.

However, tobacco and tobacco products sold through chain drug stores in 1982 produced retail sales of $2.56 billion, up 6.1% from 1981. The department accounted for 8.1% of sales in a typical chain drug store. That was a decline from 9.4% share in 1981, but gross margins remained in the 15% to 20% range.

More turns

The products also continued to produce more turns per year, 15, than products in any other chain drug department.

Cigarettes dominated the department, accounting for nearly two-thirds of all tobacco products. The total chain drug cigarette market was more than $1.7 billion, a 6.4% increase over 1981. More low tar brands have continued to appear on drug store shelves, although brand proliferation has slowed down.

The Federal Trade Commission reported that 157 out of 208 brands tested had less than 10mg of tar. That was up from 150 of the 200 brands tested in December 1981.

Brands directed for consumption by women also appear to be on the increase.

Overall, most chains are carrying between 105 and 120 brands, up from approximately 60 in 1975. Eight years ago, 61 brands were required to satisfy 95% of the customers, according to a study.

Chains are continuing to eliminate the slowest-moving brands to make way for new products that are popular or are expected to be heavily promoted by the manufacturer.

To match the shrinking unit volume, chains last year sought deals that reduced the size of their shipments from manufacturers. That reduced overhead and enabled the chains to keep fresher merchandise on the shelves.

In many cases, smaller deliveries also meant more frequent deliveries to keep in stock.

The biggest surprise in the department last year was the surge in generic cigarette sales. Generic cigarettes accounted for 3% of the market in 1982, up from 1.5% in 1981.

The increase was attributable to the lower price of generics, approximately 30% below branded cigarettes, and to the increasing number of chains that introduced generics in 1982.

Prices increase

Another change in cigarette merchandising was brought on by price increases amounting to nearly 20% in the last four months of 1982. Including $4 attributable to tax, cigarette prices increased approximately $5.70 per 1,000 cigarettes.

The increases caused many consumers to switch buying habits. Single pack sales were up at the expense of carton sales. Although retailers benefited from higher profits generated by single packs, the increase may not offset further unit declines.

By April 1983, it was still too early to tell if consumers had adjusted to the price increases and were switching back to carton purchases.

Early this year, cartons of branded 100mm cigarettes sold from $7.55 to $7.75. Cartons of generic 100mm cigarettes sold in the $5.89 to $6.09 range.

Prices of branded single packs ranged from 85¢ to $1.

Cigar habits change too

The price increases also changed the buying habits of cigar smokers, who also began switching to single pack purchases. Tobacco merchandisers for drug chains reported that cigar sales were flatter than cigarette sales. Cigar sales in chain drug stores last year were nearly $430.3 million, a 5.8% increase over 1981 sales.

Cigar sales accounted for approximately 16.8% of all sales in a typical chain drug store tobacco department.

Lighters and other smoking accessories accounted for $212.6 million in sales in chain drug sales. That was up 6.2% from 1981. The products accounted for 8.3% of all tobacco deartment sales in chain drug stores.

Loose tobacco

Loose tobacco and other tobacco products produced $184.4 million in chain drug store sales up 6.2% from the 1981 sales level. As in 1981, these products accounted for 7.2% of the tobacco products sold in chain drug stores.

Pipe sales again remained a small section of the tobacco departments, accounting for 1.2% of the typical chain drug tobacco departments.

Chain drug stores combined to sell more than $30.7 million worth of pipes in 1982, a 5.9% increase from the previous year.

1982 Tobacco department highlights

Chain drug tobacco sales	$2,561,774,000
1982 percentage gain	+6.1%
Percentage of total chain drug sales	8.1%
Typical gross margins	15% to 20%
Industry gross profit yield from tobacco last year	$385,-$512,000,000
Average no. of annual dept. turns	15

1982 Tobacco department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Cigarettes	$1,704,072	+6.4	66.5
Cigars	430,271	+5.8	16.8
Lighters/smoking accessories	212,627	+6.2	8.3
Tobacco/tobacco products	184,431	+6.2	7.2
Pipes	30,712	+5.9	1.2

Source: *Drug Store News* survey

Loose tobacco and other tobacco products produced $184.4 million in sales, up 6.2% from 1981.

Option
VICEROY KINGS
BARCLAY
KOOL
CAMEL LIGHTS
Special Offer
15¢ OFF EACH CTN. Purchase on This Display Here —
Two new ways to play it...

Most chains carry between 105 and 120 brands of cigarettes; eight years ago, 61 brands satisfied 95% of smokers.

Food and liquor sales up 5.9%

1982 Liquor/food department highlights

Chain drug liquor/food sales	$1,611,037,000
1982 percentage gain	5.9%
Percentage of total chain drug sales	5.6%
Typical gross margins	15% to 20%
Industry gross profit yield from liquor/food last year	$242,-$322,000,000
Average no. of annual dept. turns	12

1982 Liquor/food department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Liquor/wine	$761,332	+5.6	47.3
Soft drinks	231,251	+5.5	14.4
Nuts	129,929	+7.1	8.1
Snacks/cookies	117,622	+7.0	7.3
Beer	103,320	+5.3	6.4
Canned goods/condiments	72,274	+6.6	4.5
Dry groceries	62,715	+6.3	3.9
Other foods*	132,585	+5.2	8.2

*Includes health foods
Source: *Drug Store News* survey

As food inflation eased, the growth in food and liquor sales slowed in 1982.

Grocery, wine, beer and liquor sales moved upward to $1.6 billion. The 5.9% sales increase was significantly smaller than the 13.5% growth rate recorded in 1981 and well below the 9.9% that industry sales advanced as a whole in 1982.

Liquor and wine continued to constitute a major portion of the category's sales, contributing 47.3% of the department's volume. In 1982, liquor and wine sales were $761 million, up 5.6% from 1981. Sales of soft drinks were $231 million last year, an increase of 5.5%. Drug retailers reported a 5.3% increase in beer sales to $103 million in 1982. In terms of department sales, soft drinks accounted for 14.4%, while beer contributed 6.4% of the total food and liquor sales.

Sales increases

The sales increases posted by canned goods, condiments, snack foods and dry groceries were somewhat better than the alcoholic and nonalcoholic beverage categories. Canned goods and condiments were up 6.6% to $72 million. Snack foods and cookie sales were $117.6 million in 1982, an increase of 7% from the year before. Dry groceries produced $62.7 million in sales, which was a 6.3% improvement over 1981.

But even as industry figures show that food and alcoholic beverage sales were relatively weak last year, many drug retailers said that they are committed to offering a basic assortment of convenience food items. These retailers believe that if they don't stock some of the highly consumable food items in their stores they may risk losing business in other categories such as OTC and H&BA to supermarkets, which have been aggressively expanding into drug store lines in recent years.

Time counts

Consumers have put a premium on their disposable time and look more and more for one-stop shopping, many retailers contend. For this reason, drug chains are attempting to lure consumers with popular national brands that are competitive with, and in many cases under, supermarket prices.

Some chains have been so successful with convenience foods that they have expanded their in-store foodservice units by several hundred square feet and are carrying a bigger selection of grocery items. In addition, chains such as Walgreens and Longs have introduced their own private labels for food products.

However, other chains are less optimistic about the grocery sales potential in drug stores. Some retailers who moved quickly into food merchandise a few years back have said that the category generally has not produced the profits to warrant expansion. Moreover, they point out that the operating costs inherent in maintaining a full convenience food section can be prohibitive. In particular, they cite the costly expense of equipping food units with freezers and refrigerators.

Builds traffic

Drug retailers are in general agreement that food used as a traffic builder can help boost other areas within the store. Most chains include at least four food items in weekly or biweekly promotions. Grocery buyers tend to concentrate on the fastest moving "in-out" food items such as mayonnaise, ketchup, soda, coffee, sugar and instant cake mixes.

In addition to being a good promotional tool, the generally fast turnover rate of grocery products remains enticing to many retailers. On the average, grocery and alcoholic beverages turn 12 times annually. Only tobacco, which has an average turnover rate of 15, moves faster.

The fast turnover rate helps balance the low gross margins that food products generate. While margins vary from chain to chain, grocery products tend to yield between 15% and 20%.

Some retailers have begun to offer health and nutritional foods in their grocery sections. The products include dried fruits, sugar-free and salt-free food items, herbal teas and nuts. In addition to appealing to the health conscious individual who frequents drug stores, drug chains can realize profit margins as high as 40% to 50% from these types of specialty foods.

Nutritional foods and grocery products with low sodium and sugar content have drawn favorable reactions from both consumers and retailers. Many retailers believe that this will be a growing profit center for drug chains in the future. They point to the changing attitudes of many Americans toward health.

In 1982, health foods—included with several other miscellaneous grocery products in the "other" foods category—generated $132.5 million in sales and accounted for 8.2% of the total department volume. But despite many retailers' high hopes, the category increased only 5.2% from 1981.

The American desire to stay trim and fit is also having an impact on the beer and wine shelves in chain drug stores. Many chains have reported an increase in the sale of nationally known light beers, which are lower in calories than traditional beers. In addition, several vineyards have recently introduced wines that are lower in calories.

While drug retailers continue to regard food, liquor, wine and beer as integral parts of their overall product mix, they tend to be cautious about making food merchandising decisions on a chainwide basis. The reason is simple. A drug store with a supermarket right next door and another one across the street is hardly in a position to compete with its convenience food section.

At the same time drug chains that find they have stores that are not in close proximity to any major grocery outlets have been able to capitalize on a community's needs by offering full-line food sections.

One major chain drug store located in a Southern city where there are few neighboring grocery stores, for example, has expanded its food unit because of the demand for grocery merchandise. According to an executive at the chain, approximately 60% of the store sales volume is derived from its food section.

Imported & Domestic
WINES
TO GIVE · TO SERVE
PRINCIPATO
VALPOLICELLA
TREBBIANO
BARDOLINO
SOAVE BOLLA
CELLA LAMBRUSCO
Riunite

Liquor and wine constituted a major portion of the food/liquor category sales, contributing 47.3% of the department's volume.

Promos, Disc revive photo dept.

Film processing promotions and the introduction of the Kodak Disc camera toward the end of 1981 made the photo department one of the most successful in chain drug stores last year.

The 12.3% increase in sales in chain drug departments was exceeded only by gains in the prescription and over-the-counter departments.

Photo departments accounted for more than $1.3 billion in sales for the chain drug industry, a figure that broke down to approximately 4.6% of the sales in a typical drug store.

But the department also generated considerable store traffic because each film sale has the potential for three store visits: first to buy the film, second to drop it off for processing and third to retrieve the developed photographs.

But the department is successful in its own right, averaging gross margins of 20% to 25%. Merchandise turns approximately nine times per year.

Retailers credited the Disc for much of their success. Not only did the product revive sagging camera sales but also boosted film processing sales.

Some chains reported film processing gains of more than 35% over 1981, an increase that was attributable as much to special promotions as to the Disc. Promotions usually stressed two prints for the price of one.

The tactics enabled chain drug stores to record film processing sales for 1982 that were more than 16% higher than in 1981, a substantial improvement over the entire processing industry, which grew approximately 10%.

That means all drug stores increased their share of the photo finishing business. In 1982, 44.6% of all photo finishing was done through drug stores.

1982 Photo department highlights

Chain drug photo sales	$1,311,418,000
1982 percentage gain	12.3%
Percentage of total chain drug sales	4.6%
Typical gross margins	20% to 25%
Industry gross profit yield from photo last year	$260,-$328,000,000
Average no. of annual dept. turns	9

1982 Photo department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Film	$518,390	+12.1	39.5
Still color	265,300	+16.5	20.2
Instant picture	238,022	+ 8.5	18.2
Movie color	12,446	+ 4.1	0.9
Still B&W	2,622	+12.3	0.2
Processing	407,255	+16.1	31.1
Flashbulbs/flash attachments	251,020	+ 6.1	19.2
Cameras	134,753	+14.8	10.2

Source: *Drug Store News* survey

Many chains took advantage of this trend by adding capacity to their own photo finishing labs and by making improvements to their film processing plants. Some improvements included adding procedures that better protect prints against scratches and light.

Film processing gains were especially important because the process nets everyday gross margins of 30% to 33% and gross margins of 25% during promotions.

In the film category, color still was the leader, posting a 16.5% increase in sales above the 1981 level. Once again, the Disc film was a major impetus, but the growing 35mm market was also a major contributor.

Disc captures 10%

Drug chains reported Disc film has garnered more than 10% of the garnered market. Some of that gain was at the expense of 110 and 126 film. The 110 pocket camera system, introduced in 1972, is nearing the end of its product life cycle.

Thirty-five millimeter film accounts for more than half of all film and film processing sales, and this area is continuing to grow as more photographers switch over to this system.

In the color 35mm film category, print film growth continues to outpace slide film in sales, which have been relatively flat. Print film now accounts for twice as many exposures as slide film. Five years ago, sales for the two categories were equal.

The trend toward more print films has caused manufacturers to develop faster and sharper print films that produce less grain. Further improvement in the films is expected to continue to fuel the growth of 35mm cameras.

HOYA SPECIAL EFFECT FILTERS
YASHICA
CAMERAS
LENSES
STROBES
FILM
MOST PHOTOGRAPHIC NEEDS
Kodak
Holiday Picture KODAK Film
LOTTO
EVEREADY
BATTERIE

The 12.3% increase in sales in chain drug departments was exceeded only by gains in the prescription and over-the-counter departments.

FILM
today's date
KODAK Disc Film Processed at Genovese

The Kodak Disc not only revived sagging camera sales, it also boosted film processing sales.

Instant picture sales were the slowest-growing category, primarily because shutterbugs resisted the increasing price of this type of system. Including flash, the cost of producing instant pictures neared the $1 mark in 1982. However, improvements in quality and lower priced instant cameras are expected to revive this market somewhat in 1983.

Other changes are also expected in the camera market.

Drug chain photo merchandisers said the success of the Disc cameras, which have retail prices as high as $100, has proven they can sell more expensive cameras than was thought possible.

While drug stores have long been known to have the ability to sell inexpensive cameras, it had been thought 35mm camera buyers would immediately head to a professional camera shop.

35mm's succeed

However, drug stores successfully sold lower priced 35mm cameras that are easy to operate. More sophisticated electronics built into cameras has made them easier to use. In many cases, the photographer simply has to point and shoot the camera and the camera automatically will focus and set the correct exposure. These cameras will also automatically fire the built-in flash when necessary.

Some chains have gone another step and introduced single lens reflex cameras that have interchangeable lenses.

Other chains, however, would rather avoid the inventory investment and stock only a few popular cameras. Some chains decline to carry any cameras

The new generation of cameras with built-in flash means that flash and flash accessories will probably continue to decline as a percentage of total photo department sales.

Sundry sales increase 7.1%

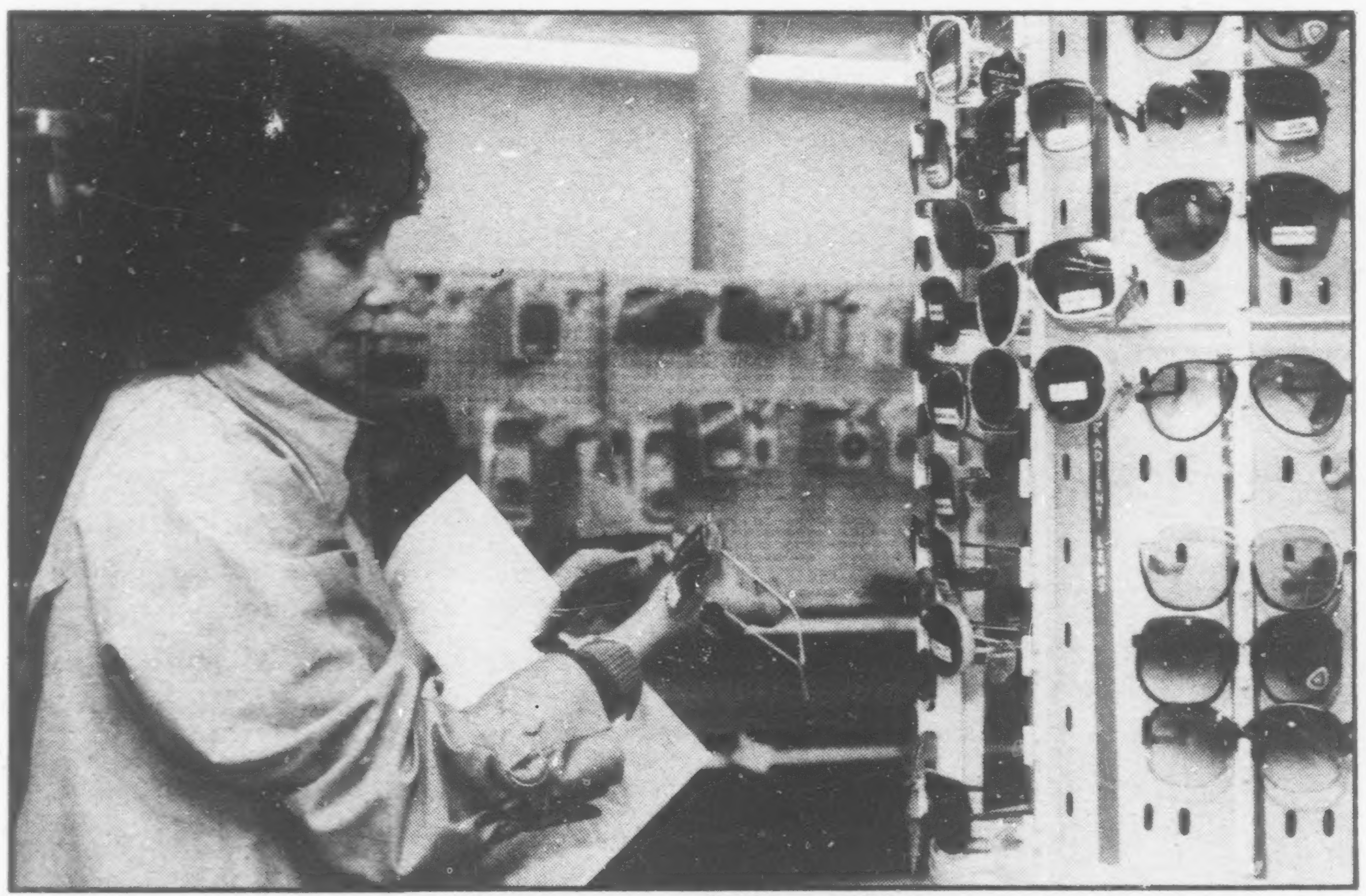
1982 General merchandise department highlights

Chain drug General merchandise sales	$1,533,321,000
1982 percentage gain	+7.1%
Percentage of total chain drug sales	5.4%
Typical gross margins	35% to 45%
Industry gross profit yield from general merchandise last year	$535,-$690,000,000
Average no. of annual dept. turns	5

1982 General merchandise department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Personal care (incl. elec. razors)	$282,719	+6.8	18.4
Sunglasses	222,951	+7.4	14.5
Pet needs	185,060	+7.1	12.1
Sporting goods	165,369	+7.5	10.8
Pantyhose/soft goods	240,673	+6.8	15.7
Watches/bands	123,767	+7.0	8.1
Home electronics	113,189	+8.2	7.4
Yarn/sewing notions	100,167	+6.1	6.5
Vaporizers/humidifiers	23,619	+7.2	1.5
Giftware	32,208	+7.7	2.1
Personal care/ rubber sundries	22,053	+6.4	1.4
All others	21,546	N /A	1.4

Source: *Drug Store News* survey



Last year, sales of sunglasses were $223 million, a 7.4% increase over 1981. Sunglasses contributed 14.5% to the department's overall sales in 1982.

Personal care products, pet needs, sunglasses and hosiery were the highest selling items in the general merchandise category in chain drug stores last year.

Total chain drug general merchandise department sales in 1982 were $1.53 billion, an increase of 7.1% from 1981. The category generated 5.4% of the total 1982 drug store sales volume, down slightly from the 5.6% the department produced the year before.

Personal care products accounted for an 18.4% share of the general merchandise sales. In 1982, sales were $283 million, which was a 6.8% improvement over the previous year. Consumers continued to be more responsive to health-oriented products and items that enhance personal appearance such as heating pads, foot baths and massagers, electric shavers, hair blowers and curling irons.

However, some buyers reported that sales of hair blowers and curling irons may be approaching the saturation point. While these products tend to have a short life span, the replacement rate is said to be only 10% at any given time. Electric shavers remained a popular gift item for the Christmas season and Father's Day.

Pantyhose good growth area

Pantyhose and soft goods were a good growth area for drug chains last year as sales volume increased 6.8% to $241 million. Drug retailers attribute the increased demand for hosiery products to the fact more women are working than ever before. Moreover, women who are pressed for time view drug stores as an ideal outlet for purchasing hosiery. The reason is they already shop in drug stores for a variety of their health and beauty needs.

Drug chains have been successful with hosiery products because they offer better price points than department stores. Most chains continue to emphasize the best-selling national brands. Several buyers also said sales of men's hosiery products improved last year.

Hosiery products accounted for 15.7% of the general merchandise department sales last year. Most retailers believe sales in this area will continue to grow in the future.

Sunglasses shine

With profit margins that can run as high as 50% to 75%, sunglasses have been an important part of most drug chains' general merchandise mix. Last year, sales of sunglasses were $223 million, a 7.4% increase over 1981. Sunglasses contributed 14.5% to the department's overall sales in 1982.

Retailers reported new designer sunglasses helped stimulate sales last year. But some buyers said the large number of knock-offs in the category, which have flooded the market recently, are creating some buyer resistance and price sensitivity.

The general merchandise category that showed the biggest sales increase in 1982 was home electronics. Home electronics rose 8.2% to $113 million. The category produced 7.4% of the department's sales.

Despite the recessionary climate, which has generally dampened consumer demand for higher-priced merchandise, drug retailers said that sales of radios and low-end home computers were somewhat encouraging.

"It's for you"

But the area of home electronics that has attracted the most attention is the telephone category. Most drug retailers believe telephones will be an extremely big growth area next year. Several chains reported that telephone sales increased steadily throughout 1982 as consumers became aware of the savings involved in owning their own telephones.

However, a number of buyers expressed concern that while there is a tremendous market for telephone sales, there is a relatively low profit potential. As telephone marketing has become increasingly competitive, profit margins have continued to shrink. Currently, drug retailers are realizing profit margins of 20% to 25% on most telephones and 10% to 15% margins on advertised promotions. But buyers expect margins to pick up as consumers become more gadget-oriented and begin to go for the higher-priced cordless and novelty telephones.

Other areas of home electronics that grew last year were hand-held calculators, which were selling for as little as $5. Credit card size and solar calculators were also popular with consumers. Other low-priced electronics that caught consumers' attention last year were Walkman-type cassette players and radios.

Pet supply sales rise

Pet food and pet care products sales rose 7.1% to $185 million in 1982, leading many drug retailers to believe that the category is recession resistant. The pet needs category contributed 7.1% to the general merchandise department.

Among the fastest-growing areas within the pet category were products that kill fleas and ticks. Other pet merchandise that moved at a brisk pace were foods, chew toys and grooming instruments.

Another sundries category that performed well again last year were watches and bands. The category showed a 7% increase, with sales totaling $124 million. Buyers said that watches were big sellers around the holidays, while bands sold consistently throughout the year. The category produced 8.1% of the department sales volume.

Sporting goods racked up a 7.5% sales increase in 1982 as sales totaled $165 million. Tennis balls, athletic supporters, wrist and ankle bands and knee pads were some of the consumer favorites.

Yarn and sewing products sales closed above the $1 million mark for the first time. The category was up 6.1% from 1981.

Other general merchandise categories that grew last year included vaporizers and humidifiers, which were up 7.2% to $24 million; giftware, up 7.7% to $32 million, and personal care/rubber sundries advanced 6.4% to $22 million.

HARTZ
RID FLEA
HARTZ

Among the fastest growing areas within the pet category were products that kill ticks and fleas.

PRODUCTS

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Auto items drive up DIY sales

Surging sales of automotive products helped drive DIY sales up 11.2% last year to $761.1 million.

Automotive department sales accelerated a hefty 20.7% in 1982 to $220 million. However, other DIY categories did not fare quite as well. Hardware sales, which includes plumbing supplies, electrical products, hand and power tools and home improvement materials, were generally flat, increasing only 5.1% to $249.3 millon last year. Paint and paint supplies also produced unimpressive growth rates, advancing 5.1% to $85 million.

Overall, automotive sales contributed 28.9% of the DIY department sales, up from the 26.6% recorded in 1981. The percentage of DIY sales generated by hardware products slipped from 36.4% in 1981 to 34.4% last year. Paint and paint supplies, which in 1981 accounted for 11.8% of the department sales, also shined less brightly as its share of DIY sales dropped off to 11.2%.

Drug retailers were not taken off guard by the growing demand for automotive products. Many chains have been expanding their auto sections for the past few years.

1982 Do-it-yourself department highlights

Chain drug Do-it-yourself sales	$761,104,000
1982 percentage gain	+11.2%
Percentage of total chain drug sales	2.7%
Typical gross margins	35% to 45%
Industry gross profit yield from Do-it-yourself last year	$265,-$342,000,000
Average no. of annual dept. turns	3

1982 Do-It-Yourself department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Hardware	$262,033	+ 5.1	34.4
Automotive	220,013	+20.7	28.9
Batteries	194,081	+12.4	25.4
Paint/paint supplies	84,977	+ 5.1	11.2

Source: *Drug Store News* survey

Steady growth

One automotive buyer for a major drug chain in the South said the category had been showing steady growth over the past five years, but in the last year grew by "leaps and bounds." Automotive sales jumped 35% to 40% last year, the buyer said.

Chain drug stores are enjoying increased profits from their auto sections partly at the expense of American automobile manufacturers. Sales of new automobiles by the Big Three in Detroit continued to stall in 1982 as consumers, fearing possible layoffs and suffering "sticker shock" from new car prices, have opted for keeping the cars they have been driving.

The average age of automobiles in use in the United States has grown well beyond what many auto experts predicted several years ago. Today, the typical American automobile is 7.2 years old, according to industry sources. In 1974, the average car was 5.7 years old.

Home improvement and general hardware goods showed only a slight increase in sales this year.

As the age of cars on the road has increased so too has the demand for automobile replacement parts. Many retailers reported that sales of hoses, belts, filters, tune-up kits and a host of other auto care products have risen markedly during the past year. Oil continues to be a popular auto item, especially when used as a promotional tool.

Many chains used auto products as traffic builders with greater frequency last year, and with good results. One auto buyer said that more than $80,000 worth of seat covers were sold during a two-week promotion in the chain's 36 stores. The buyer said that this year he would increase his use of auto supplies in store promotions.

Several retailers pointed out that the success of drug chains in the automotive area has brought an influx of manufacturers to their offices. Such companies as Dow Chemical, Burmah-Castrol Oil, Champion Spark Plug and Union Carbide are making a concerted effort to get their products into drug chains.

Continued sales predicted

If auto sales improve this year, as many analysts expect, will sales volume in chain drug auto sections continue to grow? Many retailers think sales will increase. They point out that because of high car prices consumers will be more inclined to take better care of their new automobiles. As one retailer said, the days of keeping a car for five years and then trading it in for a new model are gone.

In addition, auto parts and chemical sales should remain strong as gasoline distributors discourage their dealers from offering mechanical services so they can concentrate on selling higher volumes of gasoline. While several specialty auto repair centers have sprung up to fill this void, many consumers have elected to handle minor repairs themselves.

The auto do-it-yourselfer has been aided by the vast number of how-to books on the market. Many chains sell these repair manuals alongside their auto products. Several chains have gone a step further by training some of their employees to field consumer questions concerning car repairs and supplies.

With interest rates remaining high enough to keep affordable mortgages out of the reach of many people, sales last year of home improvement and general hardware goods showed only a slight increase over 1981.

Power tools soft

Sales of power tools for carpentry and gardening have suffered the same fate that many household appliances have during the current recession. Despite rebates from manufacturers, sales generally were soft throughout most of 1982.

Another area within the home improvement category which had shown a great deal of promise during the past few years, but which leveled off last year, was energy-saving centers. Consumers put weather stripping, home insulation products and other heat conservation devices on the back burner in 1982. The decline in consumer demand was due to three factors: the recession, the mild winter enjoyed by most of the country and the worldwide oil glut which has sent home heating oil costs spiraling downward.

Plumbing and electrical products also performed marginally during the past year. Many consumers continue to be reluctant to take on these types of jobs. However, retailers reported that sales of such products as electrical tape, extension cords, fuses and drain plungers were strong.

Paint fades

Interest in paint and painting supplies also faded somewhat last year. Many retailers attribute this category's lower growth rate to the depressed housing market.

With the exception of the automotive category, no DIY department ran up as big an increase in 1982 as batteries did. Last year, sales of batteries totaled $172.6 million, up 12.4% over 1981. Batteries also produced 25.4% of the DIY department sales.

While consumer demand in the various DIY categories shifted somewhat during the past year, drug chains say their profile of the target consumer hasn't changed. Retailers continue to key in on men between the ages of 25 to 45. Census figures indicate that by 1986 more than 30% of the population will fall into this category.

Drug retailers link the performance of the DIY sales this year, particularly general hardware and paint and painting supplies, to the overall health of the economy. Automotive product sales, they say, should continue to grow even if the recovery stalls.

The ideal situation that retailers envision is the continuing resurgence of the housing industry throughout the remainder of the year into 1984. That scenario would dramatically improve DIY sales next year.

As the average age of automobiles on the roads has increased, so have sales of automotive products.

Shoppers tune into video games

Explosive growth in the video and computer markets spilled over into drug stores last year and accounted for more than 5% of all dollars spent in chain drug toy departments.

Last year was the first time enough units were sold to be a force in the toy departments, so it could not be calculated how much video and computers sales increased above 1981 levels.

The growth in the new category was especially welcome last year because the established toy categories grew at a rate of less than 1%. That was true across the toy industry and was not limited to drug stores.

Dominated by growth in video and home computers, toy sales in chain drug stores grew 5.6% in 1982 to generate sales of $900.3 million.

The category contributed 3.1% of the sales in a typical chain drug store. The items turned at a rate of four per year.

Although toys remained one of the slower turning categories, the section produced gross margins in the 35% to 40% range. However, promoting cartridges for video games reduced the margins on the items to as low as 10%.

Chain drug merchandisers who plunged into the video cartridge arena early reaped the highest gross margins.

As more retailers began carrying the cartridges, competition became more intense and margins decreased. But even going into the 1982 Christmas season, a popular cartridge could still command a gross margin of 35%.

Christmas accounted for more than one quarter of all toy sales at many chains.

Conventional games still lead the toy category in 1982, comprising 16.5% of toys sold in chain drug stores.

1982 Toy department highlights

Chain drug toy sales	**$900,268,000**
1982 percentage gain	**+5.6%**
Percentage of total chain drug sales	**3.1%**
Typical gross margins	**35% to 40%**
Industry gross profit yield from toys last year	**$315,-$360,000,000**
Average no. of annual dept. turns	**4**

1982 Toy department productivity

Category	Total sales (add 000)	% of increase	% of dept. sales
Games	$148,497	0.2	16.5
Pegged toys	122,894	0.2	13.7
Cars	115,270	0.5	12.8
Boxed toys	105,931	0.3	11.8
Kites	96,003	0.6	10.7
Preschool	80,382	0.4	8.9
Plush	66,567	0.2	7.4
Dolls	65,845	0.4	7.3
Hobbies	52,965	0.3	5.8
Video/computer	45,914	NA	5.1

Source: *Drug Store News* survey

The video and computer market is now segmented three ways. The console units that accept game cartridges are heading below the $100 mark at retail. Retailers found little room for profit with the consoles, but some found selling the consoles boosted the sales of the more profitable cartridges.

Margins declined

Although margins declined in this second area as competition increased, chain drug stores concentrated there anyway.

The computer market, the third area, grew especially fast, and some drug chains sold computers for as little as $79. Increasing sophistication of low-priced computers may drive the game consoles off the market in the near future. Consumers may prefer a video console that doubles as a computer, especially when the computer is in the same price range as a game console.

The very success of electronics put the damper on other toy categories, although licensed products continued to do well. Another break in the trend was the rubber wall walker, which was the mini-fad of early 1983.

Electronics dominate

By and large, however, the electronics sucked enough money out of the toy market to make it difficult for consumers to have anything left over for more traditional games.

Once a computer or game console is purchased, consumers are more likely to buy cartridges for that unit so they get more variety from their relatively high cost console.

In the games category, traditionally the biggest segment of a chain drug store toy mix, lower-priced games in the $5 range proved to be more successful than games at the high end of the spectrum, around $10.

River Raid by Activision 26
Grand Prix by Activision 26.95
Pac-Man by Atari 31.95
KABOOM!
STARMASTER
SPIDER FIGHTER
ATARI
DEFENDER
MISSILE COMMAND
E.T. for Atari 2600 34.95
Starmaster by Activision 26.95
Defender by Atari 31.95
MEGAMANIA
PITFALL!
FREEWAY
BERZERK
HAUNTED HOUSE
Megamania by Activision

Chains which entered the video market early reaped the highest profits as competition soon became fierce.

The lower-priced games were the main reason sales of games increased 0.2% in chain drug stores.

The percentage of sales contributed by games to chain drug toy departments declined from 17.4% in 1981 to 16.5% because of the emergence of video, which gained at the expense of all other categories.

Wall walker sells

Pegged toy sales also were flat last year, although some chains reported outstanding success in early 1983 with the wall walker, a 2.5-in. rubber octopus or spider that crawled down a wall or window after being thrown against it.

As with most trendy items, the chains that carried the wall walker early were the ones that made the most money on it. The item first appeared in late January, peaked a month later and died by late March.

Wholesale prices to chains dropped as more wall walkers flooded into the United States from the Far East. Chains that locked themselves into one price for the wall walkers were at a disadvantage against other retailers who bought in at a lower price.

One chain reported the wholesale price fell from more than 90¢ to less than 40¢ in two weeks.

The wall walker mini-fad appears to have followed the path of most new trendy items: a fast rise followed by a quick fall.

Rubik's Cube, a big hit in 1982, also followed the meteoric rise and fall route, but was popular for a longer period than the wall walker.

Differs from past

These flashes of popularity are a departure from the past pattern. Formerly trendy items would cool off, but remain a staple that continued to sell at a slow but steady rate.

Chain retailers said 1982 set the tempo for trendy items for the next few years. While some chains plan to be more aggressive in searching for that hot item this year to make sure they are part of the next trend, others plan to avoid these types of items completely. They fear ending up with large inventories of unsalable merchandise.

One area that remained strong for most chains was licensed products, which appears to be growing every year with the introduction of new items.

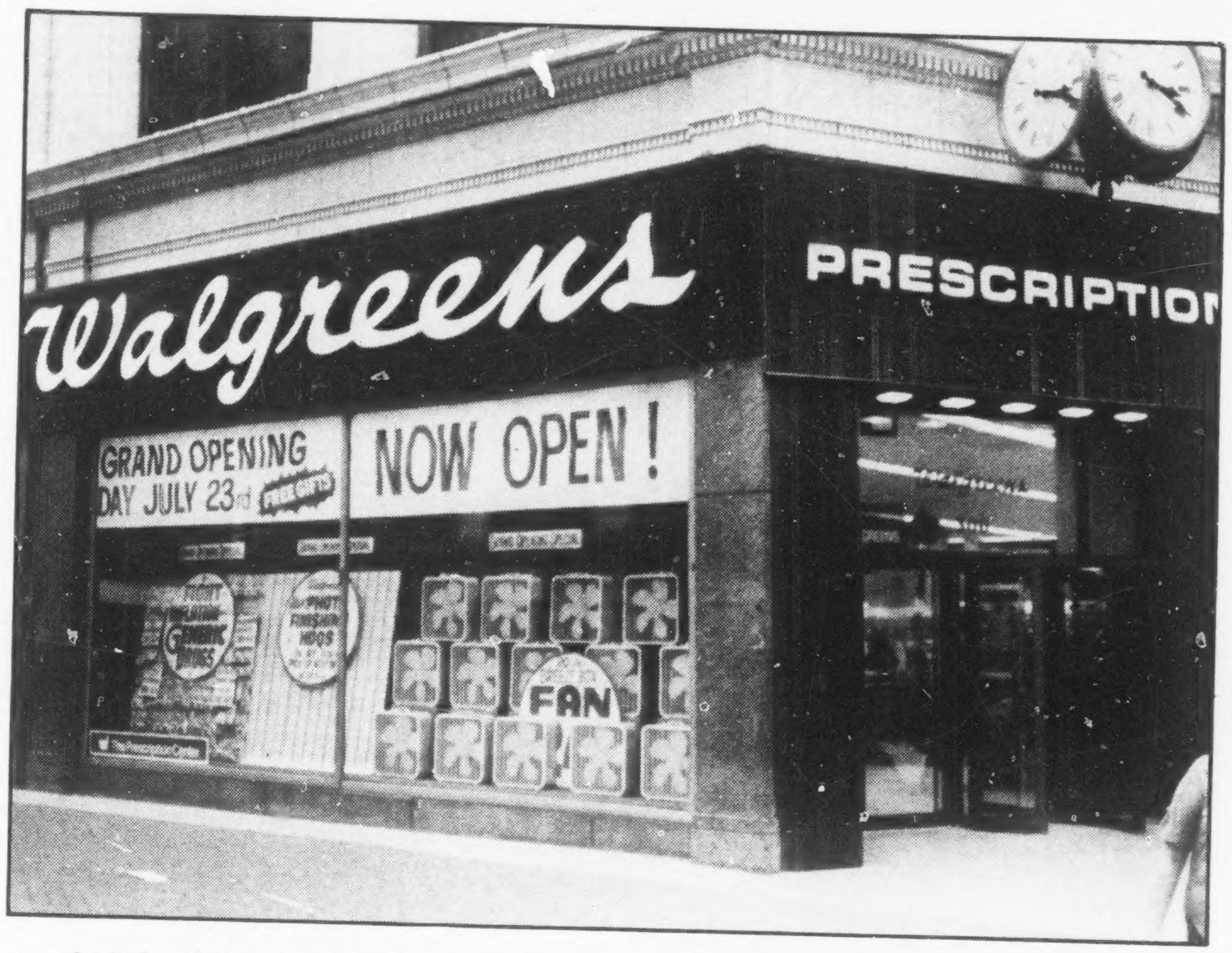
Last year, Smurf, Raiders of the Lost Ark and Strawberry Shortcake were popular. This year, the Care Bears will be launched with a large advertising budget.

However, the proliferation of licenses has reduced the guaranteed success of a licensed product. One buyer said a license must either be on a very good product or be related to the product to make it sell.

Following video and licensing, kites were the most successful items in some chains. Chains that loaded up on kites as warm weather approached in the spring of 1982 capitalized on big sales. Merchandisers pointed out that kites are an attractive drug store product because of their low-price points.

However, the product was not carried by all chains.

Walgreens: en route to $3 billion



RESULTS. Walgreens broke the $2 billion mark in 1982 and expects to reach $3 billion in annual sales by 1985. Sales and earnings at the Deerfield, Ill.-based chain have grown at a steady, controlled rate.

In fiscal 1982, sales advanced 17% to $2.04 billion. Sales were paced by the drug store division, which posted a 17.7% sales gain for the year.

LIFO-adjusted net earnings rose 33.1% to $56.1 million. Since 1978, earnings have more than doubled. Earnings, in the past five years, have shown a compound growth rate of 23.1%, one of the best in the chain drug industry.

Part of the key to Walgreens' impressive results has been the huge volume figures pumped out of the stores. The 883-store drug chain averaged $2.2 million per store in 1982. In 1982, the drug stores averaged 8,850 sq. ft. and produced sales per square foot of $226.

EXPANSION. Walgreens expanding cash flow continues to be generated by earnings increases and growing depreciation. Therefore, growth has been internally financed, avoiding long-term debt. In 1981, $33.6 million was spent on food and drug stores; $34 million was spent in 1982, and $51 million is projected for 1983.

The money is intended for 80 new drug stores, 15 Wag's and 60 remodelings. Last year, 71 new drug stores were opened and 32 were remodeled. Forty per cent of the new stores were opened in previously occupied buildings. Early in 1983, Walgreens made its first acquisition in some time with the purchase of Longmont, Colo.-based Sullivan Drug Co., a four-store chain.

Expansion continues to be in strong existing markets. For example, 79% of all stores are located in the chain's 34 major markets. In 28 of those markets, Walgreens is either the No. 1 or 2 ranked chain, based on market share.

Chain president Fred F. Canning targets markets such as Houston, Chicago, St. Louis and areas in California for future growth. He believes the chain has far from saturated markets across the country.

Walgreens' breakout of sales

General merch.	33%
Rx drugs	16%
Liquors, beverages	15%
Proprietary drugs	13%
Cosmetics, toiletries	12%
Tobacco	6%
Food services	5%

Source: Company reports

DISTRIBUTION. Last year was the second year of major development and investment for the distribution network—one of the most sophisticated in the industry. A new 350,000-sq.-ft. facility was opened near Madison, Wis., last February and a 200,000-sq.-ft. center will open in April 1983 in Flagstaff, Ariz. In Orlando, Walgreens operates a state-of-the-art facility opened in 1981.

In addition to the massive size of these units, all of them are highly automated. The net result has been a 25% decrease in distribution costs and store-order turnaround time has been reduced to three days for over half the stores.

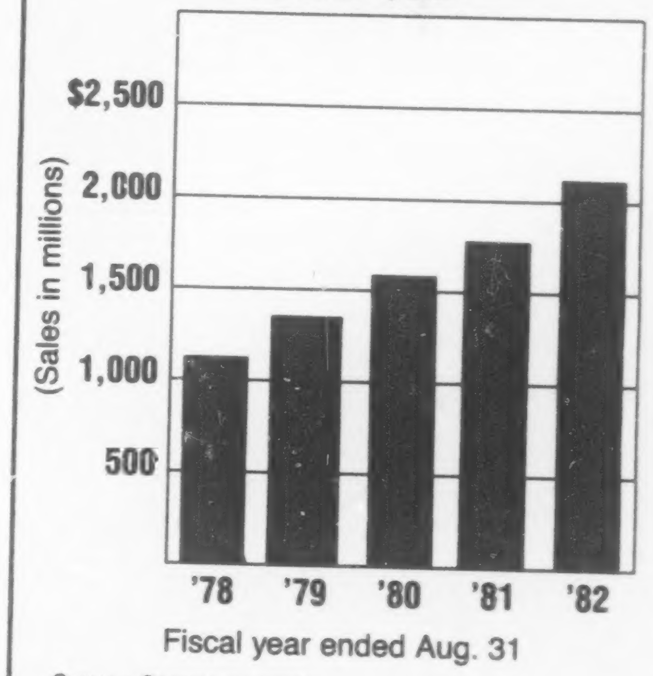
Expenditures for warehousing, new stores, restaurants and remodeling for the past two years totaled $148 million.

DEVELOPMENTS. Intercom, Walgreens in-store pharmacy terminal system, will be chainwide by January 1984. The system records patient profiles, updates prescription prices, provides income tax and insurance data for customers and performs third-party billing. Eventually, the terminal will serve the entire store. For example, it will be used to transmit daily sales figures and employee time and attendance data to headquarters. The ultimate goal is to take much of the routine paperwork from the store.

In store formats, Walgreens continues to show interest in the mini-food concept. There are now 42 mini-combos with 800 basic grocery items merchandised in 1,000 sq. ft.

Private label will receive a greater push at Walgreens. Several private label sundry products are now being manufactured in the Orient and a hair care line of appliances is being produced there, too. A new natural line of private label vitamins was recently introduced and is doing well, according to chain officials.

Sales at Walgreens broke $2B



Source: Company reports

ADVERTISING. The commitment to television advertising is rising at Walgreens. Last year's television budget was up 118% over the year before and will continue to expand in 1983. In print, 98% of the stores were supported by tabloid advertising. Fifteen million potential customers were reached 22 times by full-color tabloids.

Big B's net margin tops 2.9%

RESULTS. Maturing stores, diversification into combination units and continued expansion powered Big B to increases of more than 24% in sales and net earnings for fiscal 1983.

Net income for fiscal 1983, which ended on Jan. 29, was $2.54 million on sales of $87.4 million. That was a 26.4% increase in net earnings and a 24.7% increase in sales.

The percentage gain in income was not matched by earnings per share, which rose 18.2% to 78¢, because 870,000 shares were issued during the year, increasing the number of outstanding shares to 3,276,914.

The performance boosted the chain's net income to sales ratio above 2.9%. That, coupled with expansion, made Big B one of the high flying stocks of 1982 with a price/earnings ratio of 20-1.

EXPANSION. During calendar year 1982, Big B increased its warehouse space 13.3% to 102,000 sq. ft. to feed an increased number of stores and to handle Big B's entrance into the combination store business.

Big B finished the year with 83 stores, an increase of 11. Four of the new stores were acquired as a block purchase of the four-store Jones Brothers chain in southern Mississippi.

Two of the new stores are combination units in the 32,000-sq.-ft. range.

Big B continued to install pharmacy computers in each new store. Three stores were remodeled.

Going into calendar 1983, Big B had three stores under construction, including a combination store. The chain planned to add at least 10 traditional drug stores and at least two combination stores this year.

DIVERSIFICATION. The chain's move into 32,000-sq.-ft. combination stores completed the cycle for many Big B executives who started out with the Bruno's food chain. Two years ago, Bruno's spun off Big B, its drug division, into an independent company.

In 1982, Big B built its first two combination stores and a third is under construction. The combination stores are dubbed "B-Mart Food & Drug," and their link to Big B is illustrated on the outside of the stores by a logo that is similar to Big B's.

The combination stores are full-line supermarkets, and large crowds of shoppers welcomed the opening of the first two units. Two-thirds of the combo stores are devoted to supermarket items while one-third is set up as a typical drug store. The combos have pharmacies.

The area devoted to drug is slightly bigger than the 9,000-sq.-ft. prototype of the Big B drug store.

Osco, Sav-On bolster Jewel

RESULTS. While Jewel Cos.'s Mexican arm, Aurrera, and the economy sapped its overall performance, the two drug divisions, Osco and Sav-On, bolstered the results.

Osco, with 296 stores in 20 states, had a sales gain for the year of 16% and an increase in pretax earnings of 41.9%. Sav-On, operating 174 stores in five states, had a before-tax earnings gain of 12.6% on sales which increased 13% over the prior year. The two drug operations account for 55.8% of Jewel's United States pretax earnings.

The drug stores clicked for a total earnings of $58.8 million in 1982, a 30% jump over the $45.2 million posted the year before. The impressive earnings increase is attributed to new stores, higher productivity in existing stores, improved promotional efforts and better results from a full year of operating Sav-On.

Jewel's fourth quarter, ended Jan. 29, 1983, was tough for both the supermarkets (Jewel, Star, Buttrey and Eisner) and the drug stores. Overall, Jewel's sales rose 6% to $1.4 billion, while earnings dropped 12.4% from $34.2 million to $30 million. Net income at the supers was down 22.8% because shoppers, reacting to the economy, reduced their level of food purchases, according to Jewel.

While drug store sales were 14% higher than the prior year, earnings increased only 3.3% because consumers concentrated their purchases in lower margin items.

EXPANSION. Food/drug combination stores, however, remain at the top of the expansion list for Jewel. The company likes the fact it can sucessfully tie together the turns and volume done in supermarkets with the margins reaped in drug stores.

The company uses several drug formats—side-by-side stores with food and drug, food and drug sharing a checkout, solo drug stores and drug/home improvement combination stores. A great deal of expansion will come from the combo store with a shared checkout. Solo Osco and Sav-On stores will continue to be opened, however.

According to Weston R. Christopherson, chairman and ceo of Jewel, drug stores are targeted for strong performances in 1983.

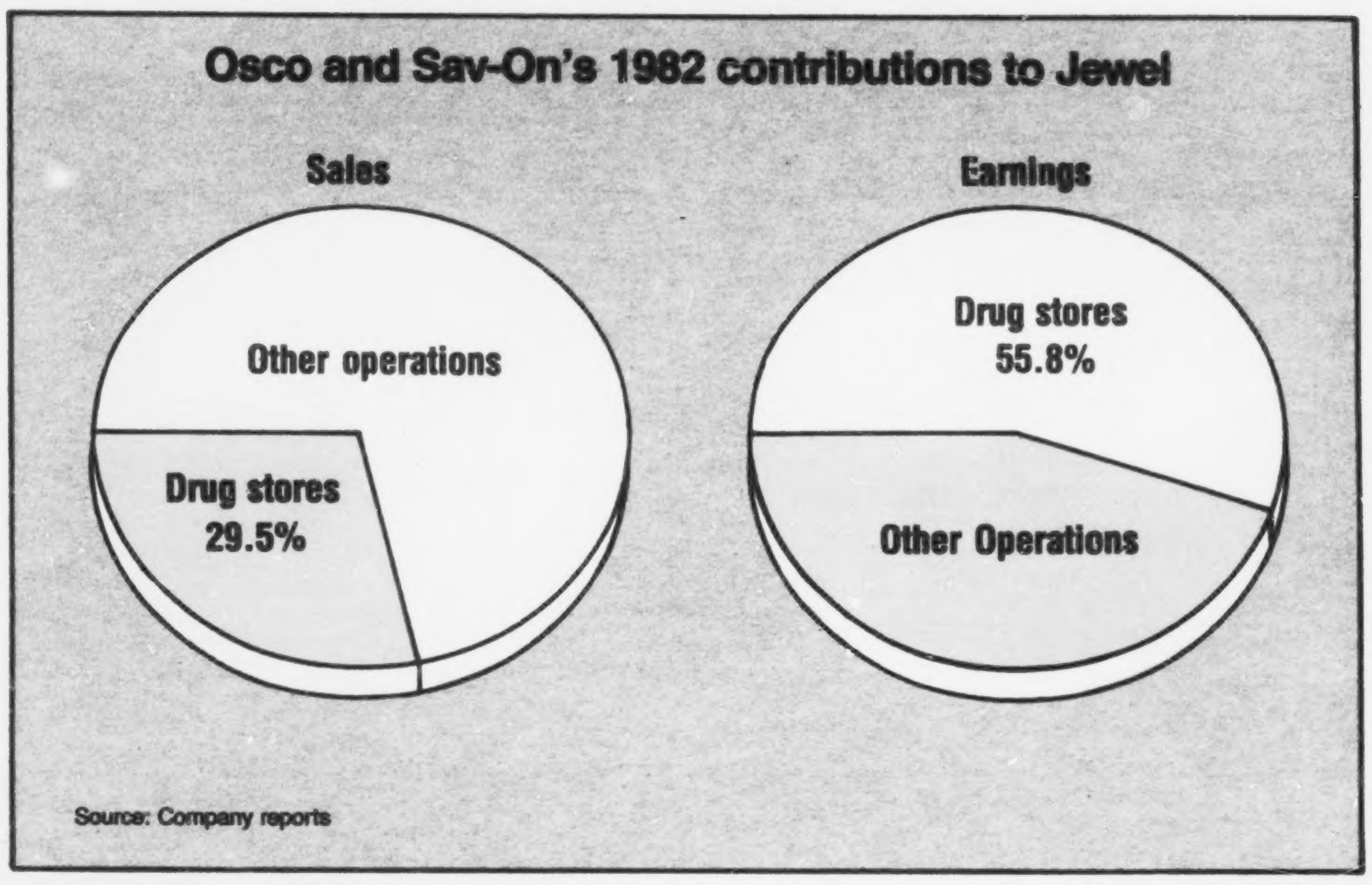
"Sales of our drug store companies, especially Osco—which operates in more diverse markets than does Sav-On, which is substantially dependent on the currently depressed California economy—remain on a good trend. Given a return to more normal margins, continued excellent productivity at Osco and improvements at Sav-On, we look for 1983 earnings from these companies to be well ahead of 1982," reported Christopherson.

Since the Osco acquisition in 1961, the company has invested heavily in this drug division. During 1982, 16 Osco units were opened, 18 Sav-Ons were added (including a few conversions of Osco to Sav-On).

OPERATIONS. Jewel's combos average 51,000 sq. ft. with 64% of the space area devoted to food and 36% to drugs. The company feels these units have strong customer appeal in terms of variety of products, convenient one-stop shopping and the range of services offered. Together, the operation produces higher operating margins than either generates separately.

These stores feature large departments including items such as home computers, video games and cameras. The solo stores also have a heavy general merchandise and seasonal mix.

OTHER OPERATIONS. In addition to its drug and food stores, Jewel operates convenience stores and has equity investment in Aurrera, a Mexican retailer.


Osco and Sav-On's 1982 contributions to Jewel

Source: Company reports

Revco posts record sales, earnings

RESULTS. Despite the national recession, Revco Drug Stores steamed ahead with record sales and earnings for the calendar year ended Feb. 5, 1983.

Net earnings for the four quarters ended Feb. 5 advanced 23.5% to $57.8 million on sales of $1.7 billion compared to earnings of $46.8 million on sales of $1.5 billion in the comparable year earlier period. For the 36-week period ended Feb. 5, net earnings advanced 25% to $40.7 million, or $1.98 per share, on sales of $1.2 billion, compared to earnings of $32.4 million, or $1.59 per share, on sales of $1 billion in the prior year.

During the third quarter, the most recent period for which results are available, Revco reported net earnings rose 29% to $16.1 million, or 78¢ per share, on sales of $439.2 million, up 15% from sales of $383.2 million in the comparable year-earlier period. Adversely impacted by inclement weather, earnings in the third quarter of the prior year were $12.5 million, or 61¢ per share.

Strong gains in comparable store sales, a reduction in expense and inventory costs and lower interest rate charges were all credited for the company's improved bottom line during the first three quarters.

Sales from like stores (those open one year or longer) increased 11.8% during the most recent third quarter and 36-week period, and like-store pharmacy sales increased 23% in the third quarter and 20.3% year-to-date, a trend reflected last year throughout the chain drug store industry. Prescription units also increased last year on a like-store basis, up 8.6% in the third quarter and 5.3% year-to-date.

Like-store sales gains in Revco's 146-store Skillern division, acquired in February 1981, were below the chain's average, in part because of the nationwide recession as well as devaluation of the Mexican peso. Losses from the Skillern division, accounting for interest expenses associated with the acquisition, totaled 4¢ per share in the first three quarters.

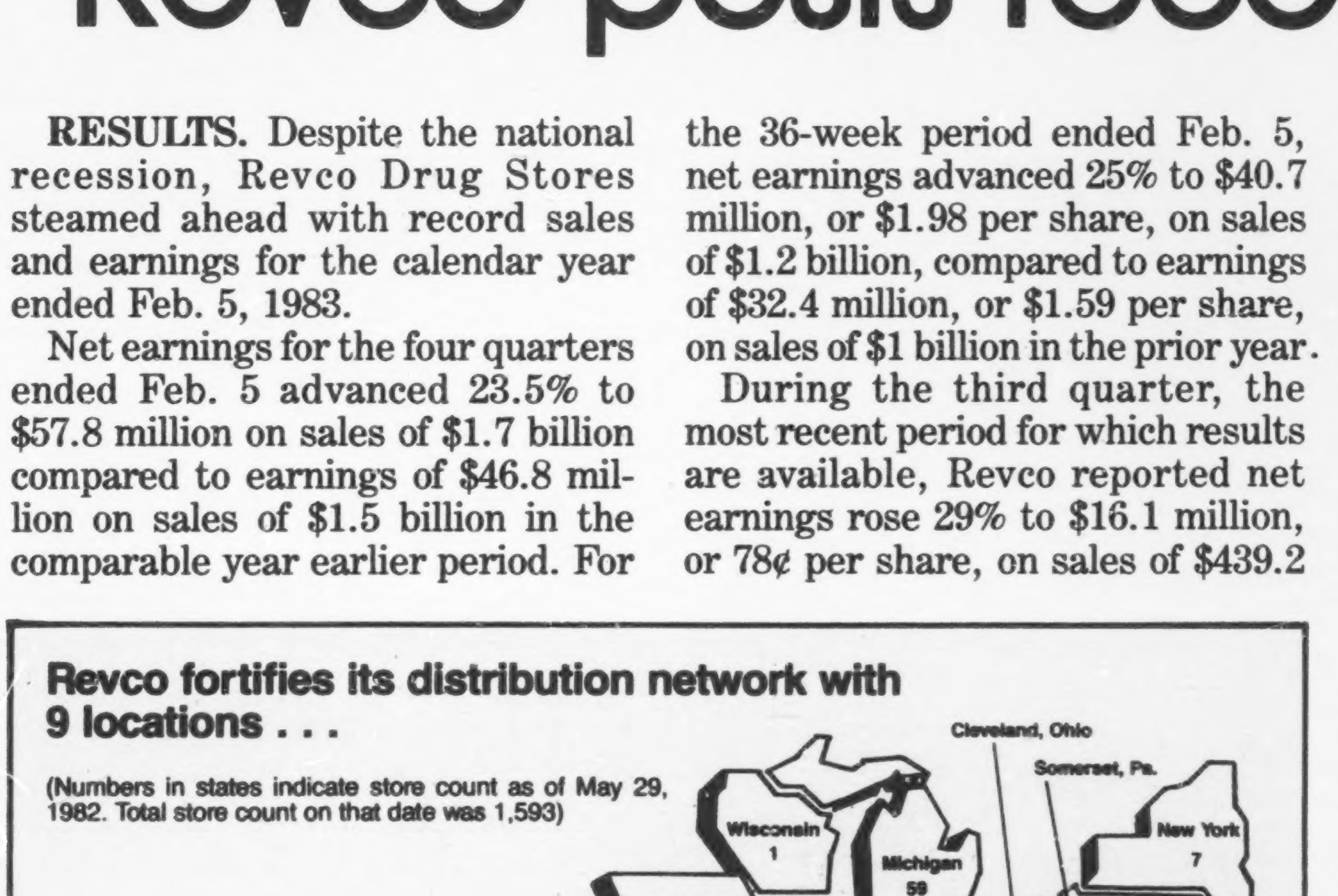
EXPANSION. During the first 36 weeks of fiscal 1983, Revco opened or acquired 50 stores, bringing its total store count to 1,639 units in 28 states. Leases had been signed for another 30 stores that were to open by the time Revco's fiscal year ends May 30. Sidney Dworkin, chairman, president and ceo, said current trends indicate Revco will achieve another record performance during fiscal 1983, with results meeting or exceeding the company's target of 15% annual increases.

DISTRIBUTION. Expansion of Revco's distribution system continues to reflect the chain's consistent store growth, especially in Southern states. Last month, the company opened a new 243,700-sq.-ft. warehouse and office complex in Kansas City, Kan., and, began receiving merchandise for June distribution from a new 291,000-sq.-ft. facility in Montgomery, Ala. The Alabama distribution center will serve Revco stores in Southern states, which represented more than half the 87 stores added in fiscal 1982, and collectively, now account for 50% of the entire chain. A 60,000-sq.-ft. addition to Revco's Henderson, N.C. warehouse is expected to be completed early this summer.

The $25 million price tag on these three projects was financed largely through industrial revenue bonds.

Revco fortifies its distribution network with 9 locations . . .

(Numbers in states indicate store count as of May 29, 1982. Total store count on that date was 1,593)



Source: Company reports

PROFILES

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

Thrifty sales up 6.8%; profits 3%

RESULTS. Despite the sluggish economy, Thrifty managed to increase sales and profits over fiscal 1981: 6.8% in sales—from $1.054 billion to $1.126 billion—and 3% in net profit—from $17.8 million to $18.3 million.

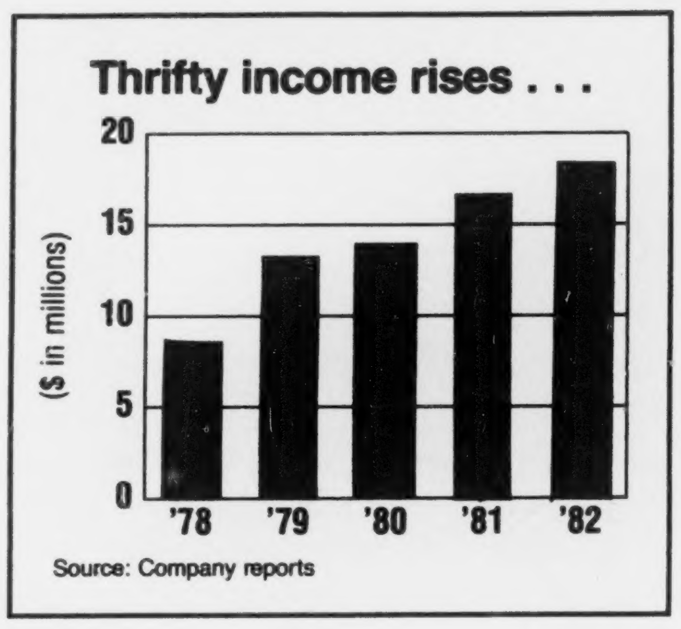
This fiscal year marks the 53rd consecutive year in which sales have increased over the previous year. In addition, "same store" sales (not including sales of stores opened during the last two fiscal years) outdistanced the previous year for the 28th consecutive year.

Sales and profits for the first quarter of fiscal 1983 (ended Nov. 30, 1982) also ran ahead of the same quarter in 1982: Sales rose 2% and earnings 13.6%.

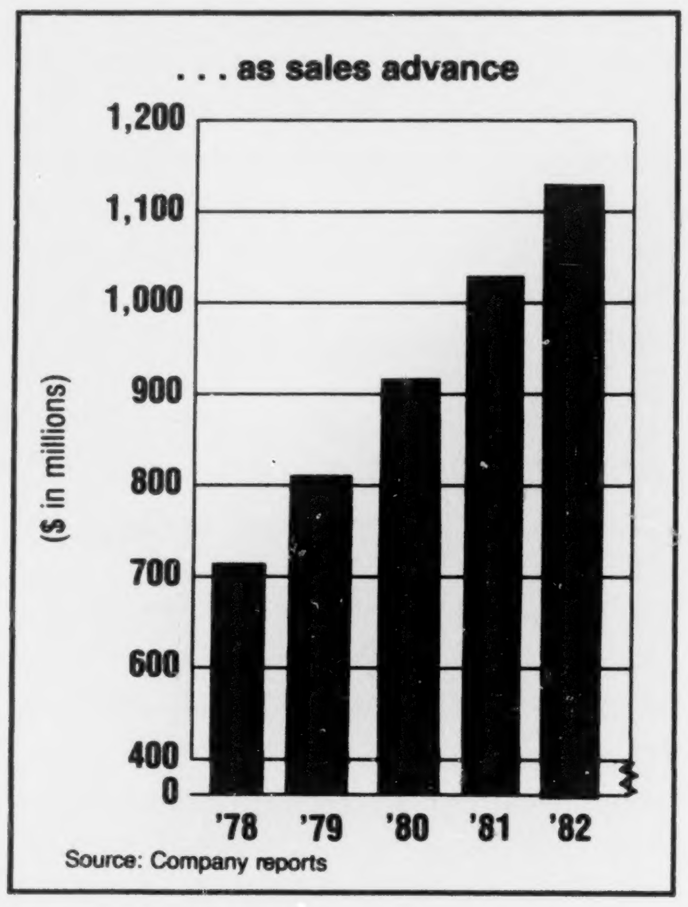
On Nov. 30, 1982, Thrifty operated 535 drug stores, 63 sporting goods units, and 27 food service units, as well as 104 book stores.

STREAMLINING. Thrifty Drug has strengthened its winners (the Perfecto drug stores); unloaded its losers (Akron and Wonder World); trimmed marginal food-service units (coffee shops), and plunged into books and auto supplies (Crown Books and Trak Auto) in partnership with Dart Drug of Washington, D.C.

THE WINNERS. Years ago, Leonard Straus, Thrifty chairman, boasted that Thrifty stores had the lowest inventory investment of any comparably sized drug store. Straus found the handmaiden of low inventory is out-of-stocks, and in the last five years Thrifty has reversed course.


Thrifty income rises . . .

Source: Company reports


. . . as sales advance

Source: Company reports

Thrifty's Perfecto prototype is 18,000 sq. ft., overall, 15,000 sq. ft. selling. New color motif, improved housekeeping, fuller facings, and more national brands are helping to erase the "also-ran" image. In addition, a chainwide program of remodeling in the Perfecto image is ongoing, with 45% of stores completed and the rest due within the next five or six years.

THE LOSERS. Akron, a 21-store specialty retail chain, was sold early in calendar 1983 after losing money every year since Thrifty acquired the chain in 1976.

Another loser was the four-store Wonder World discount chain in Las Vegas, in which Thrifty held the master leasehold since 1973.

Thrifty's coffee shops are in a gray area. The number of food-service units has dropped from 33 in 1979 to 27 on Nov. 30, 1982. The profit-makers are being remodeled, and the red-ink units are bowing to Crown Books and Trak Auto West.

THE COMERS. Crown Books and Trak Auto West are convenience, discount-priced approaches to books and auto supplies. Crown units are 3,000 sq. ft. and carry approximately 10,000 titles and 50,000 volumes. Every book is discounted, with best sellers slashed 35%. By December 1983, there will be 160 Crown Books coast-to-coast.

Dart operates 39 Trak Auto stores in the Washington, D.C., area, and Thrifty will open 10 stores—starting April 1983—with 20 more by August 1983. Trak stores are 6,000 sq. ft. and are open 86 hours per week. They offer discounts of 35% to 51% on parts.

Leonard Straus admits what attracted Thrifty to Trak is that "sales volume of auto parts and accessories in southern California is more than twice the entire drug retailing volume."

TECHNOLOGY. Thrifty has taken giant steps to harness the computer.

After testing the Honeywell DPS 6 pharmacy terminal for almost a year, Thrifty is starting to test a second system: IBM 1. Both systems are stand-alone, with a host computer at the central office.

The IBM 1 system was added because Thrifty is striving for additional potential applications such as energy management, electronic payroll reporting, and POS reporting.

A first-step application is to measure gross margins of promotional merchandise as well as to update prices.

Other computer uses in fiscal 1983 (ending Aug. 31, 1983) include: improved hardware and software for direct delivery to the stores; a linkup with major vendors for computer-to-computer ordering, and a Merchandise Control System (MCS) for the warehouse. MCS, which reduces the cost of handling, also provides for zone retail pricing.

During the next 18 to 24 months, other electronic programs will be in place, including corporate financial forecasting and in-house administration of health and dental programs (with comparison costs and benefits for each health plan).

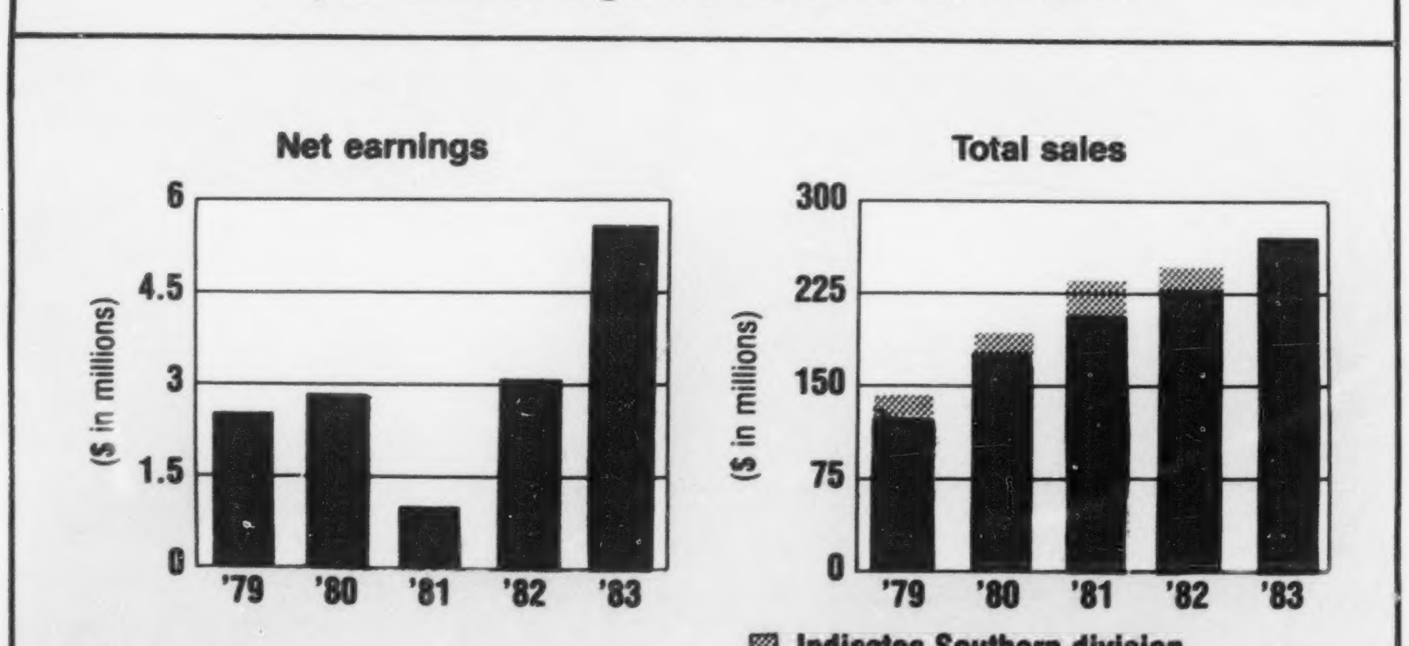
Fay's: champion earnings gainer

RESULTS. Fay's Drug emerged as an industry pacesetter in fiscal 1983 with performance gains outstripping those of all but a handful of other major chains.

Net earnings for the year rose 78% to $5.4 million, or 95¢ per share, on sales of $270.3 million, compared to income of $3 million, or 54¢ per share, on sales of $237.8 million in the prior fiscal year. For the fourth quarter ended Jan. 31, the upstate New York chain reported net earnings of $2.5 million, or 43¢ per share, on sales of $78.9 million, compared to earnings of $1.7 million, or 30¢ per share, on sales of $67.6 million in the comparable year-earlier period.

The record performance gains not only capped one of Fay's most eventful years ever, but also served as a fitting prelude to the chain's gala 25th anniversary, to be celebrated throughout the course of this year.

Fay's net earnings rebound as sales climb



Source: Company reports

Fiscal 1983 was also highlighted by significant gains in the value of Fay's common stock, which besides splitting 2 for 1 late in the year, was accepted for trading on the New York Stock Exchange. Fay's, in fact, had one of the nation's top performing stocks in calendar 1982, finishing third on the NYSE behind Coleco and Chrysler. The company's stock finished the year at 25¼, up 304% from 6¼ on Dec. 31, 1981. Between Jan. 1 and March 14 of this year, its value increased another 80% to 22¾ (accounting for the 2 for 1 split).

EXPANSION. During fiscal 1983, Fay's opened eight new stores, boosting its total store count to 92 units. Since then, the chain's 13th store in the greater Buffalo area opened, the first of nine new stores slated to open this year.

PENETRATION. Fay's recent success stems from a strategic plan developed shortly after the company pulled out of its unprofitable Carolinas division two years ago. That plan focuses on filling in Fay's existing market areas with new stores located within a 250-mile radius of the chain's Liverpool, N.Y., distribution center. With average annual sales per store in excess of $3 million, the plan appears to be working.

"Our increasing market penetration and sales per store have afforded us economies of scale which are being reflected in the bottom line," company chairman Henry Panasci Jr. told New York securities analysts late last year.

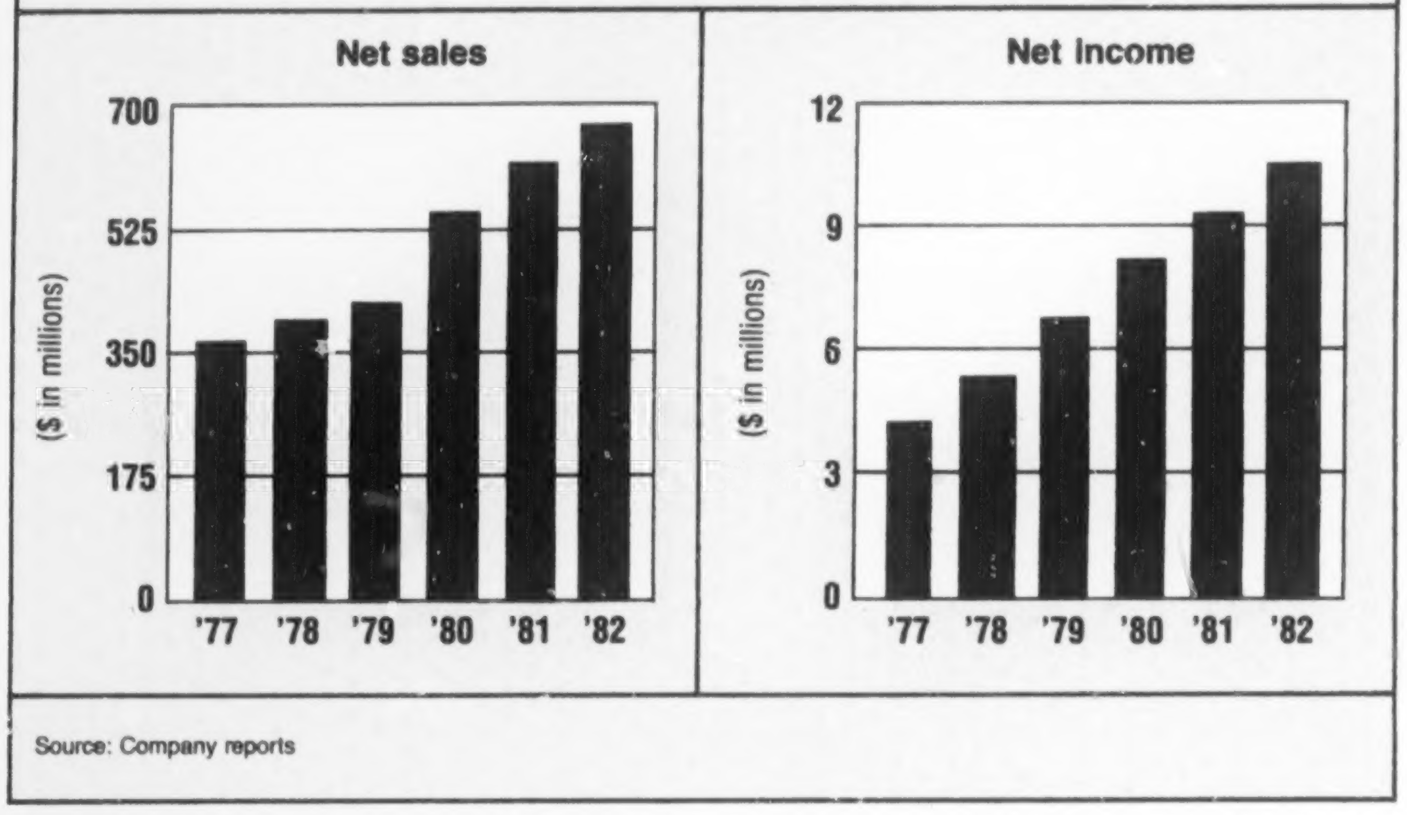
Panasci also outlined for analysts his company's ambitious 10-year growth plan that calls for "internally generated" store growth to 220 units.

In addition, the plan targets average annual compounded sales growth of 16%, to be achieved by a 10% increase in stores each year and a corresponding 6% to 7% increase in sales.

MERCHANDISING. Another factor in Fay's outstanding fiscal 1983 performance was its merchandise mix, a fine-tuned blend of traditional drug store categories plus expanded general merchandise departments. Expanded greeting card, school and office supplies and automotive departments reflect recent changes.

Peoples '82 profits increase 13%

Steady growth marks Peoples' progress



Source: Company reports

RESULTS. In its most profitable year ever, Peoples Drug Stores reported that net income increased 13% to $10.4 million on sales of $688.4 million for the year ended Sept. 30, 1982, up 9% from sales in the prior year (or 3% in comparable stores).

Prescription sales accounted for 23% of Peoples' total sales volume in fiscal 1982 and seasonal merchandise about 15% of sales. Rx sales in comparable stores increased 17% last year. Private label products accounted for 7% of all warehouse issues.

The 564-store chain reported average per-store sales of $1.24 million in fiscal 1982, and average sales-per-square-foot of $169. Sales per store were up 3.2% over the prior year, and during the past five years, they have increased 16%.

Besides prescriptions, other categories leading Peoples' sales were health and beauty aids (28%), seasonal and sundries (21%), candy, food and tobacco (15%), books, magazines and greeting cards (7%), and photo (6%). Average gross margins for Peoples stores last year were 25% and the chain's expense ratio for the year was 20.5%. The year's net-to-sales ratio was 1.51%.

Peoples reported equally impressive gains for the first quarter of fiscal 1983, ended Jan. 15. Net income for the period rose 16% to a record $5.2 million, or $1.03 per share, on sales of $248.7 million, up 15% from sales of $215.4 million in the first quarter of fiscal 1982. Unlike Peoples three other reporting periods, the first quarter contains 16 weeks, including the voluminous Christmas season.

GROWTH. Early this year, Peoples president and ceo Sheldon W. Fantle outlined highlights of his company's 1-2-3 strategic plan, which calls for 1,000 stores, $2 billion in annual sales and a 3% net-to-sales ratio by the end of the decade (1990).

To achieve the store count and annual sales goals, Peoples must open or acquire an average of up to 50 stores per year, Fantle said. Peoples is also continuing to consolidate various marketing, management and operations functions under the Peoples banner. The chain's current 13-state store network operates under eight different trade names.

DISTRIBUTION. Peoples has also announced plans for construction of a new 500,000-sq.-ft. warehouse in Virginia to serve its 260-store mid-Atlantic region. The new facility, scheduled to open within two years, will replace Peoples' original warehouse in Alexandria, Va., as well as two leased facilities in Richmond, Va.

Besides expanding its distribution capabilities, Peoples will proceed this year with the installation of state-of-the-art computerized inventory control systems in its warehouses. The first phase of Peoples' "advanced inventory management systems," referred to as AIMS, will be integrated into existing computer facilities at several Peoples distribution centers this year. The AIMS system is designed to more closely monitor inventory levels, as well as to automatically reorder basic merchandise items.

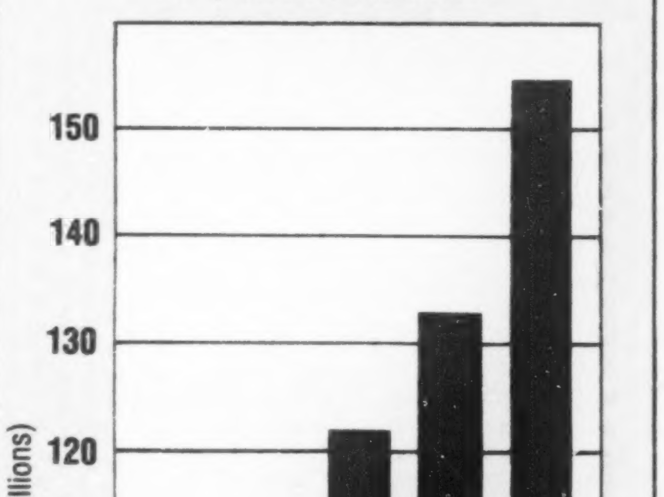
Several other merchandising and buying functions, including the forecasting and tracking of promotional deals and co-operative advertising allowances, will be added to the AIMS system in the future. Eventually, the system is expected to become a key tool in quantifying optimum space allocations for store planograms, as well as optimum gross margin returns on investment.

Over the next two years, Peoples will proceed on a market-by-market basis with the installation of pharmacy computers in its stores. By 1985, the chain's 564 stores in six different divisions are expected to be on-line.

Genovese hits record profits, sales

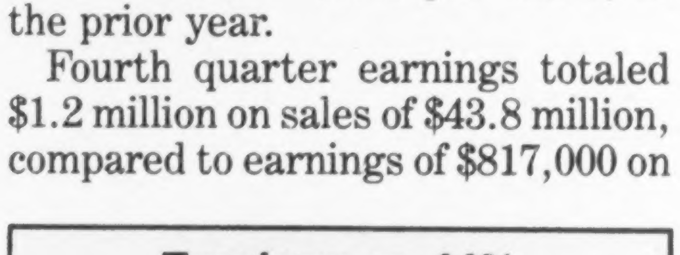
RESULTS. As with several other chains, Genovese Drug Stores reported record sales and earnings for fiscal 1983, thanks in part to strong Christmas and fourth quarter volume.

Genovese sales jump 18% to $158.6 million



*Reflects LIFO accounting method
Source: Company reports

Earnings up 44% to $2.6 million



*Reflects LIFO accounting method
Source: Company reports

The Long Island, N.Y.-based chain of 68 drug stores reported sales for the year ended Jan. 28, 1983, of $158.6 million, an 18.3% increase over sales of $134.1 million in the prior year. Net earnings for the year totaled $2.6 million, or $1.60 per share, compared to earnings of $1.8 million, or $1.08 per share, in the prior year.

Fourth quarter earnings totaled $1.2 million on sales of $43.8 million, compared to earnings of $817,000 on sales of $35.2 million in the comparable year-earlier period. One-third of the 24.3% increase in fourth quarter sales was attributed to newly opened stores, while comparable store sales growth last year averaged 11%.

The company attributed much of the earnings growth to stabilized gross margins during the year, as well as improved inventory and expense controls, new merchandise categories and expanded promotional campaigns.

EXPANSION. Genovese opened five new stores in fiscal 1983, primarily in Queens and other Long Island communities. In the first quarter of fiscal 1984, two additional stores were opened, and by the end of this month, another two stores will have opened in Queens and Brooklyn. "We've only saturated 40% of this marketplace," a company spokesman said about the openings. "So we are looking to Long Island as the base for much of our growth in the future."

In addition to store expansion, Genovese last year purchased the 50,000-sq.-ft. office and warehouse complex it formerly leased in Melville, N.Y., and subsequently added a 28,000-sq.-ft. addition. Later this year, a state-of-the-art computer system to regulate inventory levels, billing and item movements will be installed in the expanded warehouse. The new system will complement the company's conversion during fiscal 1983 to a comprehensive management information system at corporate headquarters. That system has equipped top company executives with their own computer terminal, allowing them fingertip access to a variety of data.

Capital outlays for store remodelings will be significantly increased during the current fiscal year as the chain accelerates a plan to upgrade its older stores in time for celebration of its 60th anniversary in fiscal 1985.

AUTOMATION. Besides the central office and warehouse, Genovese stores will also begin receiving state-of-the-art computer equipment later this year. The company recently signed a contract with IBM for the installation of Series I computers in each of its pharmacy departments. By the end of the current year, only a handful of installations are expected to be completed. However, by early 1985, all Genovese pharmacy departments are expected to be "on-line."

Horizons brighten for Pay 'n Save

Pay 'n Save store count inches up

Name	Type	Number of stores in year '78	'79	'80	'81	'82	'83
Pay 'n Save	**Drug Stores**	**90**	**89**	**89**	**105**	**107**	**112**
Bi-Mart	Discount drug stores	17	18	23	24	26	30
Ernst	Home center	42	47	53	64	68	68
Sportswest	Sporting goods	9	9	10	11	12	14
Yard Birds	Family shopping centers	2	2	3	3	3	3
Lamonts	Apparel	15	17	19	23	23	24
Von Tobel's	Home improvement centers	1	1	2	3	3	3
	TOTALS	176	183	199	233	242	254

RESULTS. Last year, when Monte Bean, Pay 'n Save's chairman, faced shareholders at the annual meeting, he was flanked by a silent presence: trepidation.

Judging by mail from stockholders, following the announcement that the corporation's profits had dropped32% (following a 2% decline the prior year), Bean feared a hailstorm of criticism.

However, instead of bracing himself for the attack, he took the initiative. He calmly related the facts (high unemployment, high interest rates, etc.) and then explained the belt-tightening measures the chain was taking.

When he had finished, the room was strangely silent, and trepidation retreated to the wings. The facts that Bean related had only marginal effect on the audience. What made the big difference was the quiet confidence and sincerity emanating from the chairman. The unspoken message came through clearly: the present is only a temporary dislocation and the future will bring a resurgence.

At this year's annual meeting, Trepidation will be a no-show because Bean's confidence paid off in the chain's performance.

Net income rose 30% ($16.8 million vs. $12.9 million a year ago. Corporate sales totaled $1.04 billion compared to $949.2 million the previous year. Thus Pay 'n Save joins an illustrious fraternity—the billion dollar club.

The profit picture was brightened by a decline in interest rates which reduced interest expense from $24 million a year ago to $21.4 million for the fiscal year ended Jan. 29, 1983.

Performance of the drug stores (112 Pay 'n Saves and 30 Bi-Marts) closely paralleled the corporation's sales and earnings. Drug store sales were $646.5 million vs. $585.4 million for the preceding year (up 10%), while net earnings were $15.1 million vs. $12 million (up 26%). Drug sales accounted for 62% of total corporate sales (identical to last year and 49% of profits (52% last year).

In its belt-tightening program, Pay 'n Save deferred salary increases for executives and salaried people for three months during the past year.

REORGANIZATION. As part of its lean-and-mean program, Pay 'n Save reshuffled top management to meet the needs of a new decentralized approach to advertising and merchandising after 18 months of centralized control.

The chain also formed a management committee, consisting of nine Pay 'n Save vice presidents, to zero in on long- and short-range goals.

PHARMACY TERMINALS. Last fall Pay 'n Save completed the installation of stand-alone pharmacy terminals in four stores in the California division (now 17 stores after selling three to Bill's in March 1983).

Each of the four stores will be linked to three others, thereby completing a 16-store network. The parameter for installing the stand-alone system is about 2,500 prescriptions per week per four-store cluster.

While the California division is going to stand-alone, Pay 'n Save's 62 stores in Washington and two in Idaho are on-line, at a cost of about $700 per month per store.

The stand-alone units in California cost half as much. However, price alone is not the determining factor. Management feels that when stores are fairly close to each other—as in Washington—customers usually shop more than one store. So on-line works best because each store has access to the Rx files of other stores. In California, stores are spread out, so there is very little cross-shopping. Therefore, stand-alone works well because stores need access only to their own store's files.

In addition to California, Pay 'n Save also plans to add 23 stand-alone units in Hawaii and Alaska this year.

DISTRIBUTION. Pay 'n Save continues to use its 270,000-sq.-ft. warehouse for promotional merchandise as the first step in a multiphase program. Subsequent phases will be unfolded in the remaining 730,000 sq. ft. of space, but no timetable has been announced.

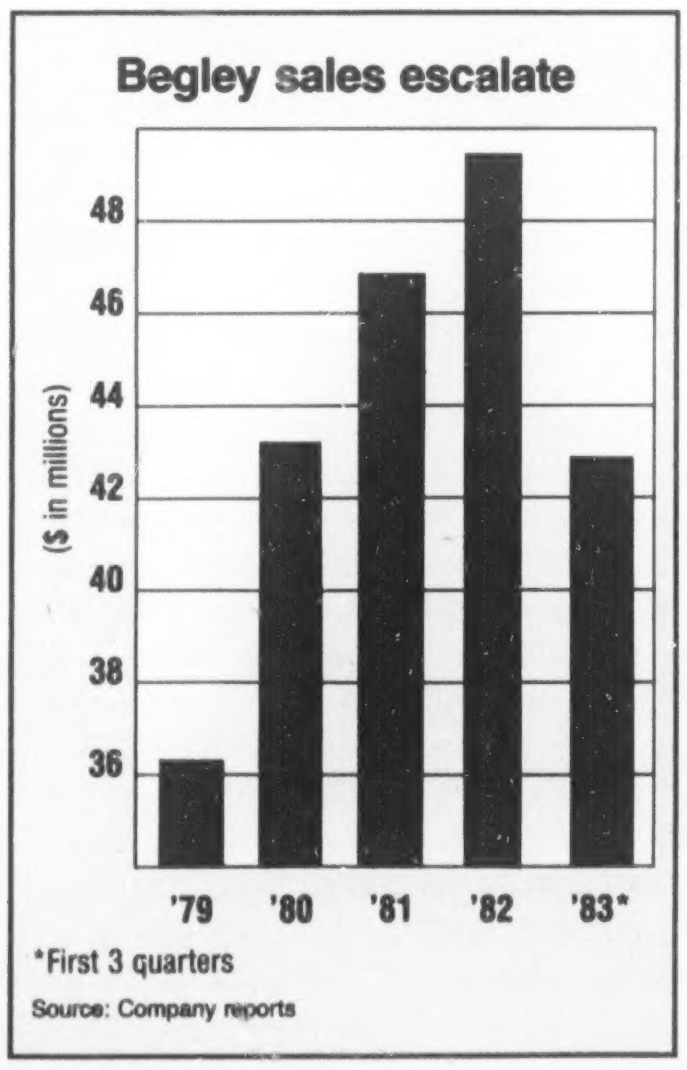
OPTICAL CENTERS. After three years of operation, the 16 optical centers finally became profitable in 1982. The key to the turnaround was the chain's third-party vision care program with corporations. Enough companies were signed to annual contracts to provide the extra volume needed to crack the black.

Begley completes its turnaround

RESULTS. Robert J. Begley last summer said he found the key to reversing the profit slide at the Begley Drug Co., and by the end of the year he was proven right.

For the first three quarters of fiscal 1983, which ended Dec. 31, Begley Drug posted a net profit of $728,884, an 83.7% improvement over the equivalent period in fiscal 1982.

Begley sales escalate



*First 3 quarters

Source: Company reports

Earnings per share for the first three quarters of fiscal 1983 were $1.33, up from 70¢ for the first three quarters of fiscal 1982.

Corporate sales, including the dry cleaning division, were $42.2 million for the most recent three quarters, a 12.8% increase over the $37.4 million posted for the first three quarters of fiscal 1982.

Drug store sales for calendar year 1982 were $40.88 million, a 13.79% increase. The dry cleaning division added another $13.3 million to corporate sales during the calendar year.

The earnings improvement boosted the chain's net to sales ratio from 1.1% to 1.7% and investors approved by increasing the bidding price of the stock from 9½ on Feb. 16 to 14 on Feb. 17, a 47.4% increase.

MANAGEMENT. Corporate profits had been sliding since 1979, a trend attributed to the recession, an inventory that included much stale merchandise, and some poor performances by some managers.

In 1982, the chain was reorganized. Outdated and shelf worn merchandise was sold in closeouts and markdowns, and four new district managers were brought in to straighten out the stores.

Orlando F. Segneri, a former district manager at Walgreens, was brought in as senior vp for the drug division.

Although cleaning up the stores and disposing of obsolete merchandise cost the chain more than anticipated, the impact of fresh merchandise improved sales and profits immediately.

STORES. As a result of the resources committed to reorganizing, Begley gained only one store in calendar year 1982. The chain opened three stores and closed two to finish the year with 51 stores, including three full convalescent aids and home health care units.

DIVERSIFICATION. Begley has long operated a dry cleaning business and has manufactured drive-in windows through its Convenience Marketing subsidiary. The company finished the year with 78 dry cleaning stores and 16 dry cleaning pickup stations.

Now, Begley is looking to further diversification by installing Radio Shack franchises in drug stores and by changing the direction of its jewelry business.

The first Radio Shack section was opened in 1981 and the second in 1982. Both sections utilize 17% of 10,000-sq.-ft. drug stores. The decision to go with Radio Shack was prompted by the chain's desire to learn the right way to sell electronics.

Begley eliminated its other electronics lines to make room for the Radio Shack, but chain executives said the move paid off and they plan to open other Radio Shack sections in the future.

Last year, Begley phased out the 16-month testing of its 300- to 400-sq.-ft. Hunt Jewelry stores that had been inside three Begley Drug stores. By the end of the year, one section remained. However, the drug chain planned to open a 2,100-sq.-ft. Hunt Jewelry store in the same shopping center, as a Begley Drug in Cynthiana, Ky.

Begley management views jewelry centers as a natural extension of the cosmetics, gifts and fragrance departments that consumers associate with conventional drug stores.

Long's expansion inhibits gains

RESULTS. Over the past 44 years, Longs' continuous profit gains have been as indigenous to drug retailing as Mom and apple pie are to the American culture. Or so it seemed until the third quarter of fiscal 1982 when net income dropped 16% and sent shockwaves through the financial community.

However, security analysts noted that the company took a special credit of seven cents a share on the sale of land last year, so when that was factored in, earnings slipped only 6% instead of 16%.

Still, the realities of the marketplace left their mark. Price-conscious shoppers did more cherry-picking, so the ratio of ad sales to total store sales rose, thereby lowering gross margins. Also, during the recessionary years of 1980-82, while other chains dampened their expansion plans, Longs opened 42 units. When start-up costs are added to the cost of maturation (the historical yardstick is that it takes a new superdrug store one to two years to crest the black), then Longs' profit figures take on a new dimension.

Viewed in context, Longs' expansion during economically depressed times bodes well for the future. Due to internally generated funds and sale-leaseback, Longs is able to put a lock on strategic locations without recourse to long-term borrowing.

Even so, Longs' earnings for fiscal 1983 managed to beat 1982 ($30.9 million in 1982 vs. $30.3 million in 1981). Sales rose 12%—from $1.005 billion to $1.23 billion.

RX TERMINALS. After testing its pharmacy terminal system since the summer of 1981, Longs is now rolling them out to the stores at the rate of one per week. Still undecided is whether to go with stand-alone or cluster (whereby two satellite stores transmit to one host-computer store). Longs will make the decision by the end of 1983.

In the long range, Longs plans to incorporate sales data, purchasing, space allocation and ROI into its system.

The Longs' Rx terminal (hardware by Hewlett-Packard, software by Longs) has two exclusive features:

One, doctors can query the pharmacist on drug interaction information even if the drugs are not on the prescription. The terminal not only dictates drug interaction, but writes a three-line text on the details, as well as citing the page in a reference book for more information. And two, it calculates gross profit on acquisition costs but does not require retail calculations to be made on the same basis.

DISTRIBUTION. Longs owns and operates a distribution center in Hawaii. At two other locations (northern and southern California) Longs does not own or lease the facilities, but pays an upcharge per case for handling and shipping. The centers are used primarily for ad and promotional merchandise, and at present handle about 4% of the store inventory.

For years Longs' highly decentralized operation made little use of off-site warehouses. The basic format hasn't changed—individual stores continue to buy direct from manufacturers on a close-to-best-buy basis. However, modifications have been made. Because of the size and volume of the stores, chainwide purchases frequently exhaust manufacturer capacity for some promotional merchandise. Thus, Longs feels that more discounts could be significant as the size of its base increases. In addition, there is the need to predict availability and accurately schedule the delivery of promotional merchandise.

NUTRITION CENTERS. This category is growing, but because of Longs' manager-autonomy philosophy, the departments vary in size and scope.

PRIVATE LABEL FOOD. Longs' answer to surging generic food sales in supermarkets is its Kitchen Korner private label line. The rationale: instead of taking on a generic line where not all items have quality equivalent to national brands, Longs opted for a private label where the quality can be more closely controlled so that it does match national quality.

Longs started with six private label foods last summer: mayonnaise, four flavors of preserves and peanut butter. Recently the chain added semisweet chocolate chips, maple syrup and bagged nuts. Next: canned and jar nuts.

Store expansion highlights at Longs

Fiscal year	Opened during year*	No. in operation at year-end	Square footage Company owned (000)	Square footage Total (000)
1978	11	112	1,529	2,714
1979	9	120**	1,690	2,933
1980	11	130**	1,970	3,212
1981	19	149	2,191	3,728
1982	14	162**	2,392	4,089
1983	12	173	—	4,360

*Does not reflect relocations
**One store closed during year

Source: Company reports

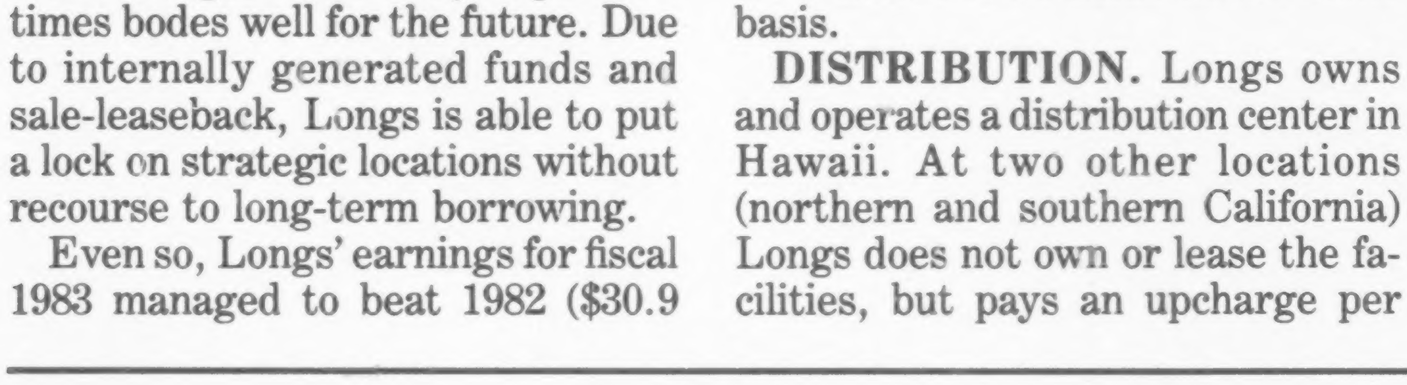
Dart's net income skyrockets 318%

RESULTS. Diversified drug, book, auto parts, home center and beer/wine store operator Dart Drug reported a whopping 318% increase in net income for the fiscal year ended Jan. 31, making its year-to-year performance one of the best in the chain drug store industry.

The Maryland-based chain of specialty retail stores reported net income of $17.4 million, or $10.37 per share, on sales of $291.8 million, compared to net income of $4.2 million, or $2.51 per share, on sales of $276.9 million in the prior year.

Nearly two-thirds of the earnings gain reflected Dart's $8.3 million sale to Thrifty Drug of a 50% share in its successful Crown Book East division, as well as 50% of the operating systems for Trak Auto West. Jointly owned by Dart and Thrifty, Trak Auto West opened the first of numerous West Coast Trak Auto specialty stores last month.

Even without the extraordinary income gain, Dart's year-end earnings were up 118% over last year. Earnings in the fourth quarter soared 162% to $6.5 million, or $3.82 a share, compared to $2.5 million or $1.48 per share, in the comparable year-earlier period. Fourth quarter sales totaled $81.9 million compared to $78.7 million in the prior year.



Trak Auto was Dart Drug's biggest newsmaker in fiscal 1983, and earlier this year, the company announced plans to spin off the Eastern segment of the fast-growing division into a separate public company.

DIVERSIFICATION. Dart's successful diversification into non-drug retailing continued unabated in fiscal 1983. The chain opened nine new Trak Auto stores, and along with Thrifty, 32 new Crown Book stores. Trak Auto stores opened prior to the recent West Coast joint venture with Thrifty are located primarily in the Metropolitan Washington, D.C. area. Crown Book stores are located in the Metropolitan Washington, D.C., Chicago, Houston, Los Angeles and San Francisco areas.

In addition, Dart opened its fifth Total Plus discount cosmetics, health and beauty aids and general merchandise store last year and remodeled six drug stores.

Earlier this year Dart announced plans to sell to the public 1.65 million shares of common stock in its Trak Auto subsidiary, which now consists of 47 stores. The Trak Auto stores accounted for nearly one-fourth of the company's total earnings in the most recent fiscal year. In documents filed with the Securities and Exchange Commission, Dart estimates the value of the proposed transaction to be $29 million, based on a $16-per-share price for Trak Auto stock. If approved, Dart will sell 29% of its 100% ownership in Trak Auto and retain 71%. Up to $10 million of the proceeds from the offering has been earmarked for new Trak Auto (East) stores.

In addition to the recent Trak Auto openings in California, Dart is also considering opening auto parts stores in Florida.

Dart Drug profits soar 318%* in fiscal 1983

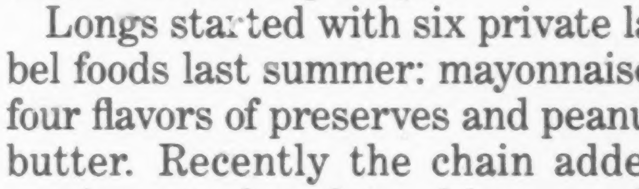


*Figure includes extraordinary gain of $8.3 million from sales of 50% interest in Crown Books East and 50% of Trak Auto West operating systems to Thrifty Drug.

Source: Company reports

Pay Less thrives despite joblessness

RESULTS. For the past two years the economies of Washington and Oregon have delivered a double whammy to retailers. Boeing, the single-largest employer in the Seattle area, suffered production cuts and layoffs. In Oregon, where the lumber industry is No. 1, the sound of falling timber has been near-silent, as the housing industry, shackled by high interest rates, put a "hold" on construction. The net result: The highest unemployment in the West.

Operating in the heart of depression country is Pay Less NW, whose 69 stores in Washington and Oregon comprise almost half of the chain's 146-store count.

Yet in fiscal 1981 and 1982, Pay Less was able to write a near "business as usual" scenario on profits. In fiscal 1981, although sales were flat (a 1% increase), profit increased 16.3%. And in fiscal 1982, earnings rose 16.4% ($19.4 million in 1982 vs. $16.7 in 1981), while sales increased 3.5% ($784.7 million in 1982 vs. $758.5 million in 1981).

How did Pay Less manage to pull a profit rabbit out of its operating hat while other retailers haven't even been able to find the hat?

ADVANCED TECHNOLOGY. A multifunction on-line bookkeeper terminal system has been installed which has reduced operating expenses and improved inventory turnover.

The new bookkeeping system—consisting of a terminal and printer—augments Pay Less' on-line pharmacy system.

Pay Less NW's product mix as a percentage of sales

Prescription drugs	7%
Over-the-counter and related items	8
Major appliances	1
Fabrics	2
Candy and tobacco	8
Small appliances	4
Household consumable	9
Beer, wines, liquor	2
Household durable	7
Infant items	3
Toys	5
School supplies, books and magazines	4
Sporting goods	5
Photofinishing and equipment	8
Automotive	3
Hardware and plumbing	4
Garden supplies, nursery	6
Records and tapes	3
Miscellaneous	11
TOTAL	100%

Source: Company reports

A major function of the bookkeeper terminal system is inventory control, including ordering from the warehouse; verifying in-stock status at the warehouse; recording sales by departments; facilitating stock transfers between stores, and monitoring the sale of staples. Other uses: keying in daily sales deposits, payroll data input; setting employee schedules, and updating accounts payable.

Another labor-saving, efficiency-improving device is a new computerized cash register being installed in all new and remodeled stores. The prime purpose of this on-line register, which is tied to a Series One IBM computer, is threefold: (1) to improve checker accountability, thus improving in-store security; (2) to speed checkout time, and (3) to replace time clocks because it is also an attendance terminal.

Because each register is a computer terminal and is therefore totally programmable, other functions can be added—such as front-end scanning and bank cards. A key factor is that the system is attached to the Series One IBM computer via an RS 422 multidrop interface. This permits the host computer to talk to individual store registers, making the system more versatile and less expensive than the RS 232 interface.

DISTRIBUTION. With the addition of a 200,000-sq.-ft. distribution building in 1984, Pay Less will increase its warehouse-to-total inventory tonnage beyond the present 45%.

The new building, used primarily for ad merchandise, will bring Pay Less' total distribution facilities to 700,000 sq. ft. of floor space plus 208,000 sq. ft. of mezzanine.

The existing structure, which became fully operational in 1980, now handles both staples and ad merchandise. Ninety-six per cent of the output of the facility is fully conveyorized. In addition, a system was designed that tracks every case from the time it is placed onto a picking belt until it is discharged into one of the 54 shipping lanes.

In another breakthrough, Pay Less—for the first time in its 40-year history—will warehouse legend drugs, beginning in the fall of 1983. About 8,000 sq. ft. is being set aside for pharmaceutical stock in the existing warehouse.

Why is Pay Less making this move? For better inventory control, better utilization of manufacturer products, and better utilization of generic selections. Summed up: to make pharmaceuticals a profit center.

STORES. Early in the year, Pay Less downsized its stores 3,000 sq. ft.—from 28,000 to 25,000—in the face of increasing occupancy costs. To accommodate the new size, the length of the middle run of gondolas was reduced from 32 to 28 ft., and the rear from 32 to 24 ft. To maximize the cube, gondolas for hard lines (auto, hardware, sporting goods, etc.) were raised from 60-66 in. to 72 in.

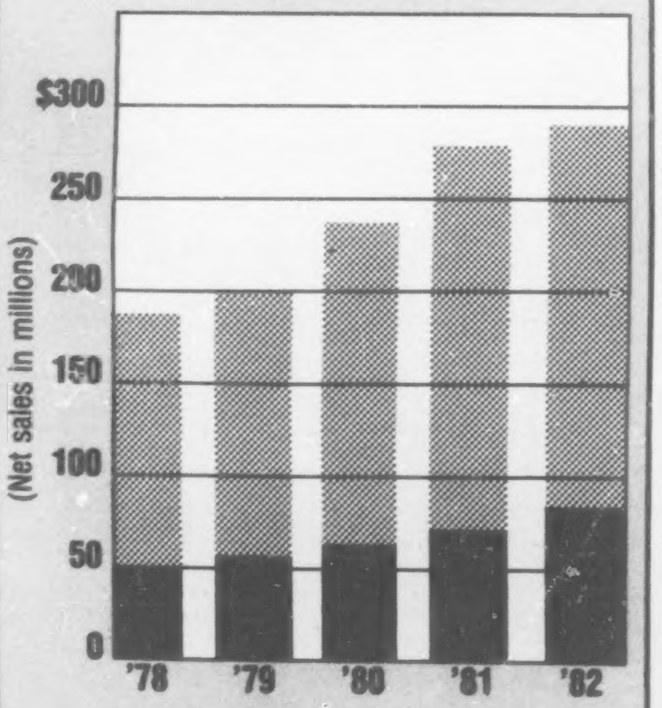
Pay Less returns to Nevada with the opening of a 29,684-sq.-ft. store in Elko. In 1981, after acquiring the Pay Less Oakland chain, Pay Less NW sold its two Reno stores to Longs, thereby removing itself from the Nevada market.

However, Elko is in northern Nevada, near the Idaho border, and thus becomes part of the Idaho division. Pay Less has no plans for returning to the Reno market.

Hook makes earnings comeback

RESULTS. During 1982, Hook Drug enacted plans to combat the difficult Midwest economy and severe weather. After 1981 earnings dropped 20% and first quarter earnings 56.5%, the chain devised remedies including expansion of its convalescent aid centers, stronger promotional and advertising programs to build traffic and a tighter control on expenses.

Net sales, prescription volume have grown steadily at Hook



Source: Company reports

The plan was successful. Hook produced a 12.6% increase in earnings on a 9.2% gain in net sales. Hook's 282 retail operations posted sales of $285.2 million in 1982 vs. $261.1 million the year before.

Shareholders' equity per share improved from $13.17 to $14.05.

OPERATIONS. Hook is among the chains that operate a bantam style of store, ignoring the trend to a heavy mix of general merchandise. The standard prototype remains in the 7,500 sq. ft. range. With its heavy concentration on the Rx business, the chain has managed to produce gross margins close to 34%.

Last year, Hook's "Pharmacists in Green" filled more than 9.1 million scripts. The retail value represented 32% of total sales, a 19.9% increase over the year before.

Hook also runs convalescent aid units featuring beds, wheelchairs, exercise equipment and other sickroom supplies. These units have a high success rate because they attract shoppers from a radius of 50 miles and produce gross margins of 40% and up. Three new centers were opened last year, bringing to eight the total number of convalescent aid centers.

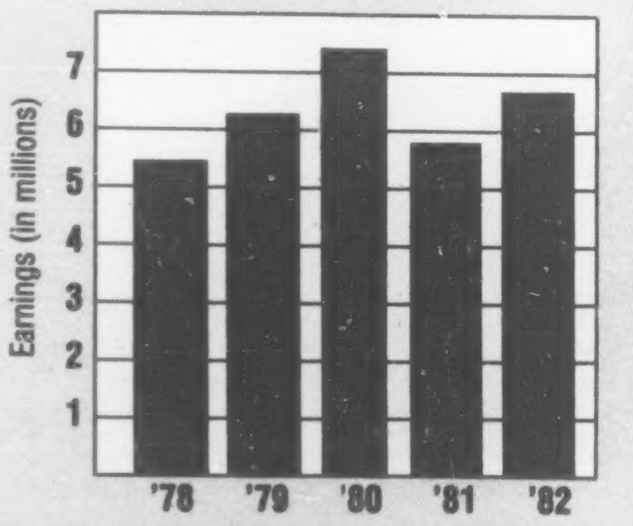
The company's principal business remains its 272 Hook drug stores. During 1982, 16 units were opened. In 1983, the chain hopes to accelerate the pace of new openings.

However, the chain will not grow in the convenience food store area. Last year the company decided to close its food store operation, Quik Way. According to the company's annual report, after three years of operation the food stores did not meet expectations. Part of the reason was that the units were pitted against a strong local operator. The results of the sale were not material to the current financial position.

The company maintains its convalescent aid units as well as one hardware store and the H. Lieber Photographic sales and service store.

DISTRIBUTION. Hook's warehouse is one of the most efficient in the industry. Materials are transported via automatic cars operating on electronic impulses and the 834,000-sq.-ft. warehouse is fully conveyorized. Each weekly store order is delivered within an average of only 36 hours after the order has been placed. The warehouse is equipped to handle up to 400 stores without adding a substantial number of new employees.

Hook's Five-Year Earnings History*



*In 1981, the company adopted the LIFO method of accounting

Source: Company reports

1983 ANNUAL REPORT OF THE CHAIN DRUG INDUSTRY

PROFILES

Rite Aid's net income, stores grow

RESULTS. Rite Aid's explosive growth in 1982 enabled the chain to open its 1,000th drug store, boost net income 38% and acquire a 128-unit toy store chain.

The chain's net income for fiscal 1983, which ended Feb. 26, was $54.98 million, up from $39.85 million for fiscal 1982. However, the fiscal 1983 figure was swelled $5.093 million by Rite Aid's sale of five million shares in its British affiliate, Superdrug stores P.L.C.

The sale on the London Stock Exchange reduced Rite Aid's stake in the British chain from 42.5% to 28.2%.

Without the stock sale, Rite Aid's net income for fiscal 1983 would have been $49.86 million, up 25.2% over fiscal 1982.

Not counting the stock sale, Rite Aid's net-income-to-sales ratio for fiscal 1983 was 3.8%. Counting the sale, the ratio was 4.3%.

Earnings per share for fiscal 1983 were $2.61, up 38.1% from $1.89 in fiscal 1982. The stock sale contributed 24¢ per share in fiscal 1983.

In addition to the stock sale, Rite Aid benefited from income from the Circus World toy store chain, which was acquired on Sept. 1, and the addition of 102 stores during calendar 1982.

EXPANSION. The net gain of 102 drug stores brought the number of units to 1,060 by the end of calendar 1982. The gain exceeded Rite Aid's goal of increasing the number of drug stores by 10% each year.

While most of the new stores were opened individually or after small acquisitions, the chain made three larger acquisitions.

In the spring of 1982, Rite Aid bought the five-store Cochran chain in Columbus, Ohio. That purchase brought the number of Rite Aid units in that market to 18, tying Rite Aid with Gray Drug Fair as the chain with the most stores in that region.

Less than a month later, the chain bought the 27-store Mann drug chain in North Carolina. That acquisition boosted Rite Aid's store count in the state to 82, making the chain a healthy competitor against Revco and Eckerd, which had 160 and 130, respectively, in the state.

Rite Aid continued to grow in the area and opened its 1,000th store in June in Durham, N.C.

Rite Aid acquisitions continued in June with the 19-store Lomark Discount Drugs chain in Ohio. This purchase moved Rite Aid into a new direction in drug retailing.

Three of the Lomark stores were low-margin Drug Palace stores. The 15,000-sq.-ft. stores are twice as big as the Rite Aid prototype and are operated completely differently.

The Rite Aid logo was not put on the Drug Palace stores and the merchandise is bought direct on deal from manufacturers, rather than flowing through the Rite Aid warehouses.

The Drug Palace stores do not have all sizes of all merchandise because of the buying system, another departure from the traditional Rite Aid style.

The remaining 16 Lomark stores are in the 6,000- to 7,000-sq.-ft. range and fit in well with the 6,500-sq.-ft. Rite Aid prototype.

DIVERSIFICATION. Rite Aid on Sept. 1 bought the 128-store Circus World toy store chain, the fifth largest toy retailer in terms of sales in the United States. For the year ended Jan. 30, 1982, the toy chain posted $51.1 million in sales and an estimated $1 million in profits.

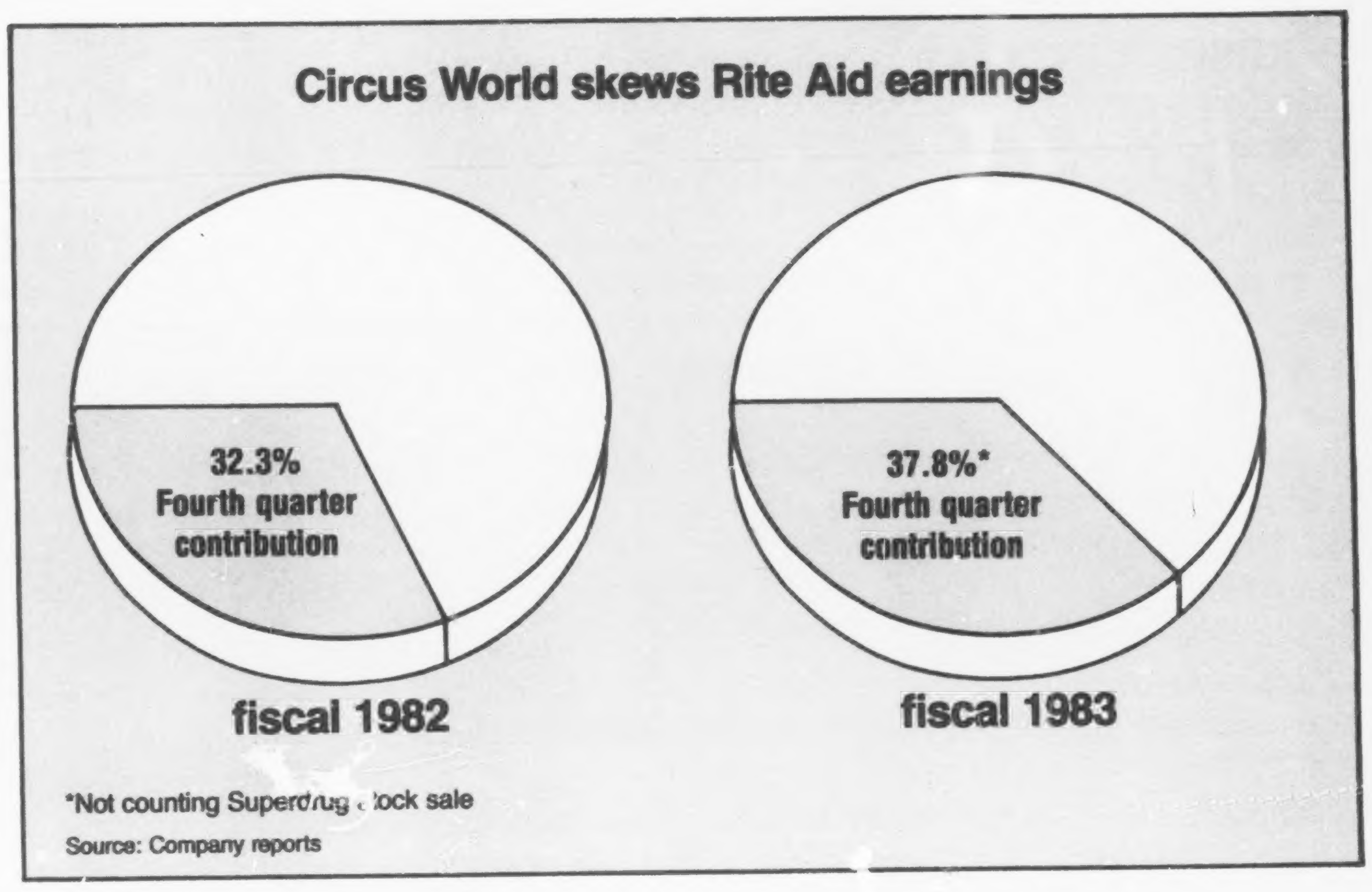
Rite Aid will not break out Circus World's contribution to the corporate sales and earnings. However, the toy chain has skewed Rite Aid's earnings more to the fourth quarter.

In fiscal 1982, fourth quarter earnings were 32.3% of the corporation's earnings for the year. In fiscal 1983, after subtracting the proceeds from the Superdrug stock sale, net income for the fourth quarter was 37.8% of the chain's earnings for the year.

Because of the cyclical nature of the toy business, Circus World posted a net loss in the third quarter.

PERFORMANCE. Rite Aid continued to promote its discount image and private label products, which account for more than 10% of the chain's sales.

The chain also continued to add pharmacy computer terminals and finished calendar 1982 with 36. Rite Aid extensively remodeled 75 stores in 1982.


Circus World skews Rite Aid earnings

*Not counting Superdrug stock sale

Source: Company reports

Adams prospers in strong 4th qtr.

RESULTS. Adams Drugs ranked among the industry leaders in performance gains in fiscal 1983, reporting 18% and 32.5% increases in sales and earnings, respectively, over the prior year.

Net earnings for the year ended Dec. 31 were $4.5 million, or $1.12 per share, on sales of $286.2 million compared to earnings of $3.4 million, or 84¢ per share, on sales of $242.5 million in the prior year. The company said half of the 18% sales gain was attributable to former Mall and MD pharmacy and health and beauty aids stores acquired by Adams in 1981. Fiscal 1982 was the first full year in which Adams owned the Mall and MD stores.

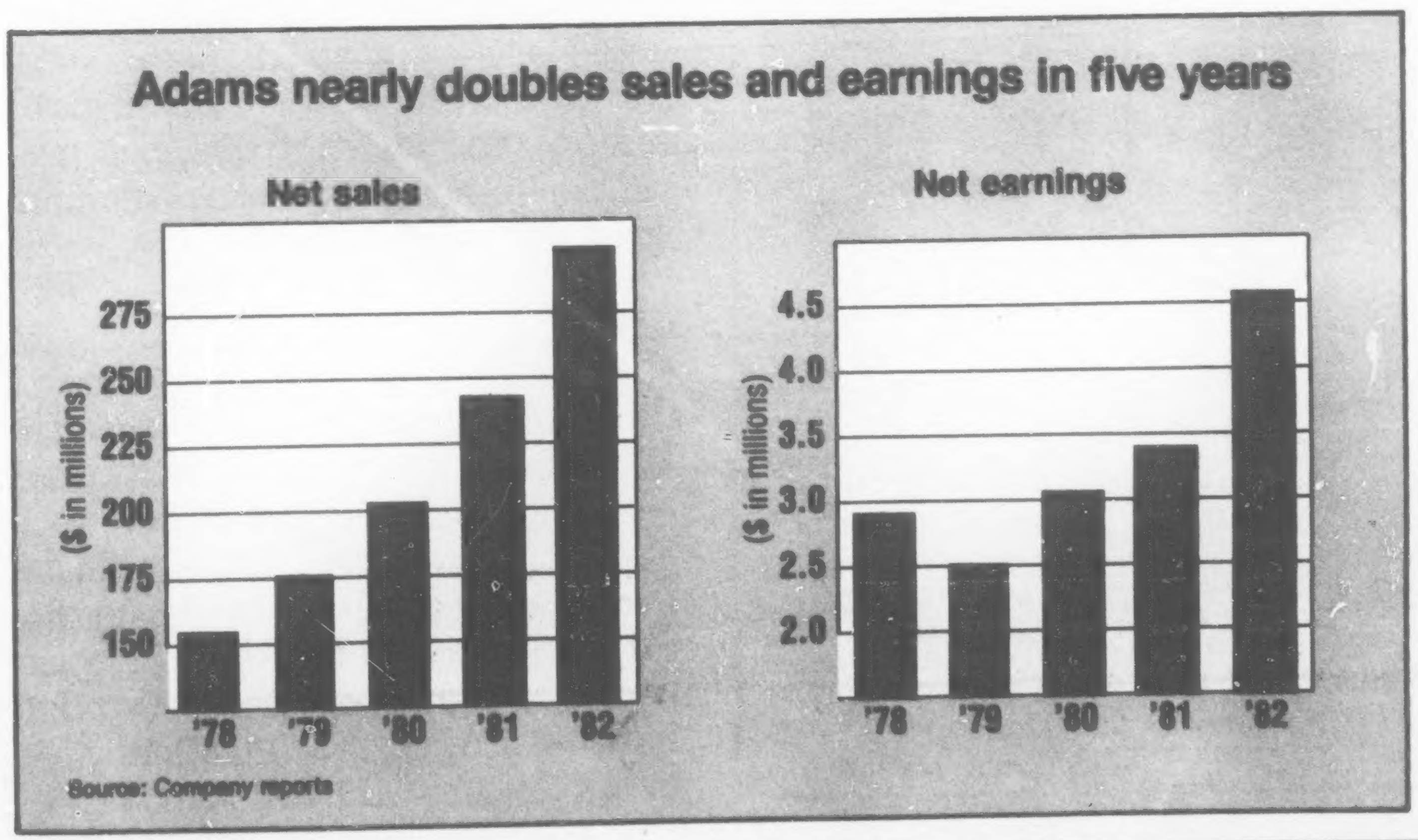
Fourth-quarter earnings of $2.7 million accounted for well over half of Adams' fiscal 1982 profits. Fourth quarter earnings in the prior year totaled $1.9 million or nearly two-thirds of that year's profits.

CONSOLIDATION. To facilitate its new emphasis on television advertising, Adams continued to consolidate various stores names during fiscal 1982, bringing another 85 stores under the Brooks logo. Launched in 1966 as a chain of small, discount-priced H&BA stores, Brooks has mushroomed to include 290 stores, making it the largest division in Adams' 446-store network. Numerous Brooks stores have been remodeled in recent years to include pharmacy departments, which Adams has targeted as the focal point of most of its stores. Stores converted to the Brooks logo during the past year were primarily former Mall and MD stores. However, numerous Whelan and Maxwell stores in New England, plus several Hall stores in upstate New York also received the Brooks' facelift. Besides the 290 Brook stores, Adams operates 56 Eckerd stores in western Pennsylvania, 41 Adams stores in Rhode Island and neighboring communities and 59 other stores under various names, including 14 Whelan and 10 Nescott stores in the New York City area.

MERCHANDISING. As part of its ongoing remodeling program, Adams has expanded and repositioned "core" drug store departments, including greeting cards, cosmetics, stationery and candy. Household supplies and housewares, which, a company spokesman said, failed to generate adequate turns, were scaled back to make room for these changes. The company also commissioned a new, more modern series of labels for many of its private-label products during the last fiscal year. The labels were designed to enhance the visibility of these high gross margin items, especially when they are positioned next to their national brand counterparts.

Franchised national brand cosmetics are getting new emphasis in the chain's expanded cosmetics departments, while selections of various private-label or off-brand cosmetics are being scaled back.

In a 50-store "test," Adams has also installed 4-ft. natural H&BA sections to determine whether chainwide installation is justified. Pharmacy computers are also being tested in five Adams stores.


Adams nearly doubles sales and earnings in five years

Source: Company reports

Perry buckles up after soft yr.

RESULTS. It was a tough year for Perry, even though the company managed to end its 25th year with record sales of $244.3 million, up 27% from $192 million.

But higher advertising costs to generate traffic and higher interest expense combined to deny the chain a record year of earnings. LIFO-adjusted earnings declined 15% to $2.9 million, or $1.10 per share, from $3.4 million, or $1.31 per share, a year earlier.

Perry's current ratio (of assets to liabilities, used to judge ability to pay debts) increased to 1.9 to 1, from 1.6 to 1 in 1981.

Shareholders' equity rose 10% to 25.6 million and Perry's return-on-investment came in at 11.3% in 1982.

Selling space rose 10% to 1,181,000 sq. ft., and the average sales per square foot was $220—higher than the industry average. The average Perry store produced $2.1 million.

During its Silver Anniversary year, Perry filled its 25th million prescription. Rx sales were up 38% to $41.9 million, and prescriptions now account for 17% of total sales.

On the heels of a soft year, Perry enacted a Profit Improvement Program. This belt tightening helped produce record first-quarter results. Earnings rose 24% to $2.1 million, equal to 78¢ per share, from $1.7 million, equal to 65¢ per share, a year earlier. Sales jumped 17% to $74.5 million vs. $63.7 million. Seasoned stores, those with at least one-year volume comparison, showed healthy sales growth of 10.2% over a year ago.

Chairman Jack A. Robinson is calling for Perry to reach a sales volume exceeding $600 million with more than 230 units by 1987 and to hit $1 billion in volume with 350 units by the end of the decade.

Perry, as of April 1983, is listed on the New York Stock Exchange, a move that helps shares to trade better.

EXPANSION. Perry recently announced it will diversify in 1983 with the opening of a chain of freestanding auto parts units called Auto Works. Three of these stores are open and up to 25 may be launched within the next two years.

The beauty of this concept is that it allows Perry to open a retail unit even in a center where a competing chain already operates. Auto accounted for 12.4% of Perry's annual sales last year.

Eleven new stores were opened last year, six were purchased from Gould Drug and eight conventional units were converted to the drug/auto concept. Three leased units were closed during the fiscal year and the remaining 10 were shuttered early in 1983. Perry, at year-end, operated 125 stores, 67 of which were combination units. Two dental centers were in operation within stores.

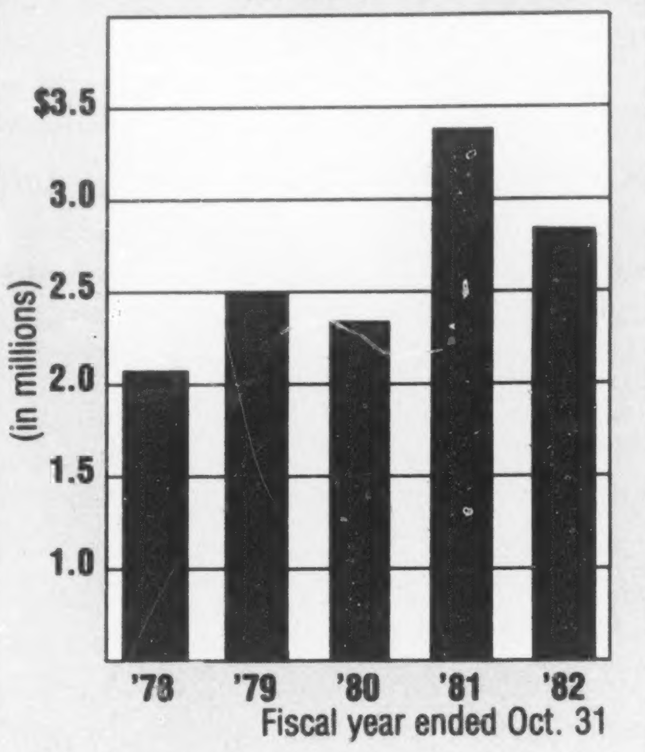
Also for 1983, 12 to 15 stores will be opened and 14 will be remodeled. Capital spending for this will total $2.6 million.

DEVELOPMENTS. After a three-year search for a pharmacy computer system, Perry is set to go with 10 systems in stores this year. This pilot system will have automated pricing, price updating, tax and insurance reporting, recording of patient profiles and label and receipt printing. Third-party payments are a critical need for Perry because about 60% of total script volume involves this form of payment.

Perry also has a strong network of management information services and distribution capabilities. Supported by an IBM 4341 computer, Perry has automated control of product movement in and out of the distribution center, electronic store-to-warehouse ordering, seasonal merchandise tracking, automated financial reporting and automated third-party billing systems.

Thanks to mechanized systems in the 225,000-sq.-ft. distribution center, Perry can service stores within 48 hours of an order.

Perry's earnings dipped in 1982



Source: Company reports

Gray pulls off sharp turnaround

RESULTS. Regrouping. Refinement. And recovery. Those three words probably best describe Gray Drug Fair's performance in fiscal 1982 as the Cleveland-based chain bounced back from one of its most challenging years ever—1981.

Under new ownership (Sherwin Williams Co.) and new management (Al Towle and Company), Gray and its recently acquired sister company, Drug Fair of Alexandria, Va., reported operating income for the year ended Dec. 31 of $13.9 million on sales of $540.6 million, compared to a pro forma loss on sales of $508 million in the prior year. Under Sherwin Williams' ownership, Gray Drug Fair's operating income in the fourth quarter of fiscal 1981 (October, November and December) was $6.9 million on sales of $137.9 million. Gray Drug Fair accounted for 29.2% of Sherwin Williams' fiscal 1982 sales of $1.85 billion and 13% of its $106.4 million operating income for the year.

On a pro forma basis, the sales increase equaled 6.4%, while earnings moved from the red in the prior year back into the black.

MANAGEMENT. A new senior management team installed by Towle shortly after Sherwin Williams' takeover of Gray Drug Fair is continuing to make progress toward improved growth and profitability. The establishment of cohesive management systems, tailored to the specific marketing and operations needs of the chain's three regions—Northern, Atlantic and Southern—has been a major priority under Towle's leadership. Late last year, Gray Drug Fair announced the appointment of new vice presidents for each of the three regions, reaffirming its commitment to a regional-based operations network.

Addressing New York security analysts earlier this year, Sherwin Williams chairman, president and ceo John G. Breen said both Gray and Drug Fair were "undermanaged" companies prior to their acquisition by the paint, chemicals and coatings manufacturer and retailer. However, morale is on the upswing, he said, as Gray Drug Fair's new management team "gets a handle on" prior problems, including inventory control and shrinkage.

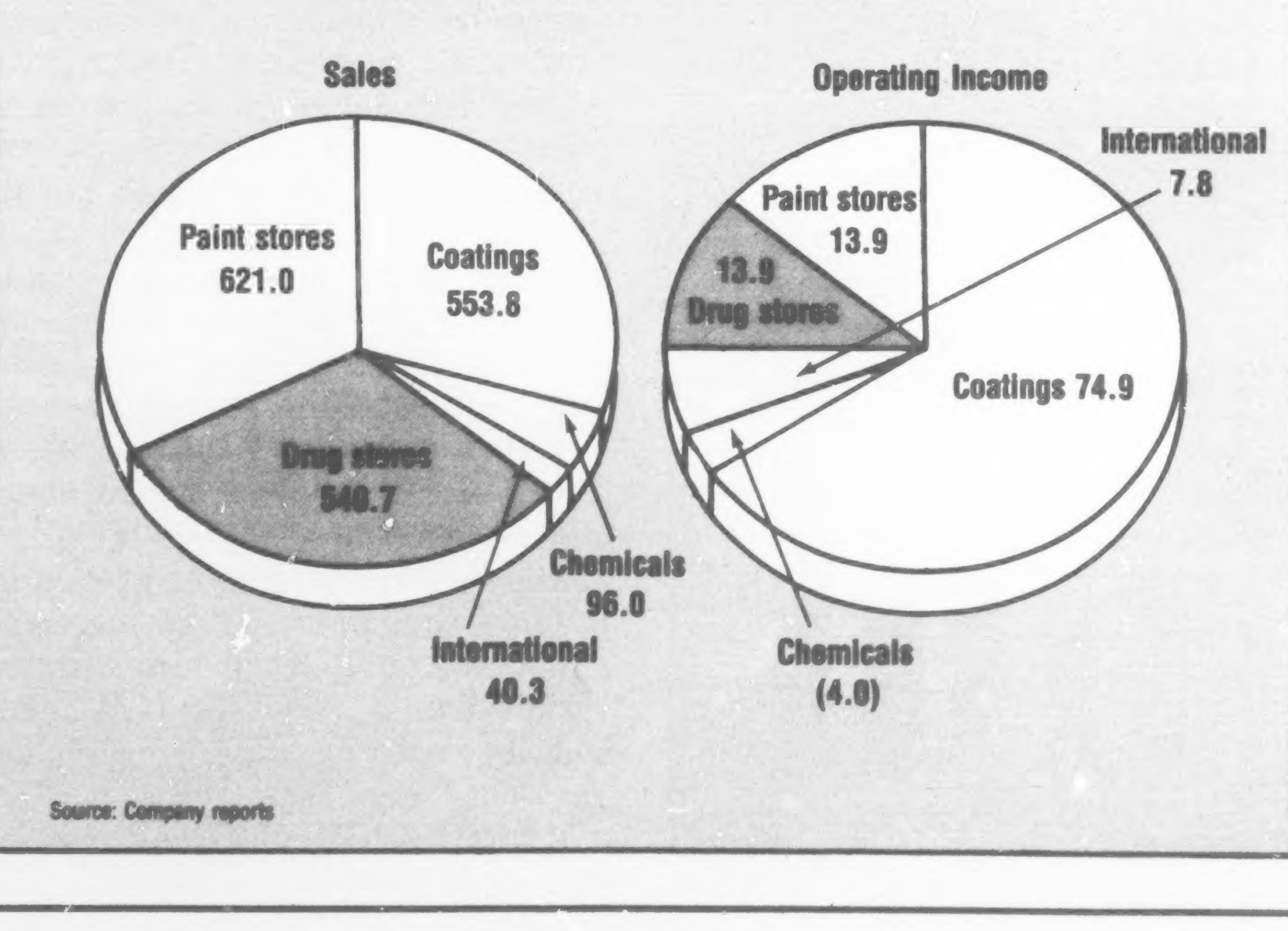
MERCHANDISING. A new merchandise format emphasizing core drug store categories like prescriptions, cosmetics and health and beauty aids, as well as a revised advertising campaign aimed at boosting the public's image of Gray Drug Fair stores, are expected to further improve sales and profits in the current fiscal year. Late in 1982, Gray closed the Fashion Fair apparel departments in more than 100 Drug Fair stores, and since the beginning of this year, has closed three of eight soda fountains still operating in Drug Fair stores. Square footage occupied by the apparel departments will be remerchandised with faster-turning, more profitable categories, or will be sublet to other retailers, the company said. Former fountain departments will be remerchandised primarily with expanded health and beauty aid selections.

Upgraded accounting and management information systems aimed at improving inventory control at Gray Drug Fair's three regional distribution centers have been targeted as key goals in fiscal 1983. Streamlined distribution procedures and an improved loss prevention program will also be emphasized this year.

GROWTH. During fiscal 1982, Gray acquired 42 existing stores, including 25 Cunningham stores in Ohio and seven Drug Way stores in Virginia.

In addition, two new stores were opened, 11 were sold, 13 were closed and 60 were remodeled. During fiscal 1983, the 381-store chain is expected to add 21 new stores, through internal growth or acquisition, close two, relocate eight and remodel 60.

Gray Drug Fair stores, contributed 14% to Sherwin Williams operating income in fiscal 1982.



Source: Company reports

SupeRx remodeling raises profits

RESULTS. A three-year, multi-million-dollar store revitalization program is beginning to pay off for SupeRx Drug Stores, which reported a 133% increase in pretax operating profits for the fiscal year ended Jan. 1.

The Kroger Co. subsidiary, which at year-end operated 520 stores in 20 states, reported pretax profits of $15.2 million on sales of $716.4 million, up 5% over fiscal 1981 sales of $682.6 million. Operating profits on fiscal 1981, including $4.3 million from the sale of 21 Houston area stores to Walgreens, totaled $6.5 million.

"The continued revitalization of SupeRx drug store facilities and refinement of its operations and merchandising strategies are producing improved results," Kroger officials said in announcing year-end results. "Such key performance indicators as return on assets, inventory turnover and sales per unit all improved at SupeRx during 1982."

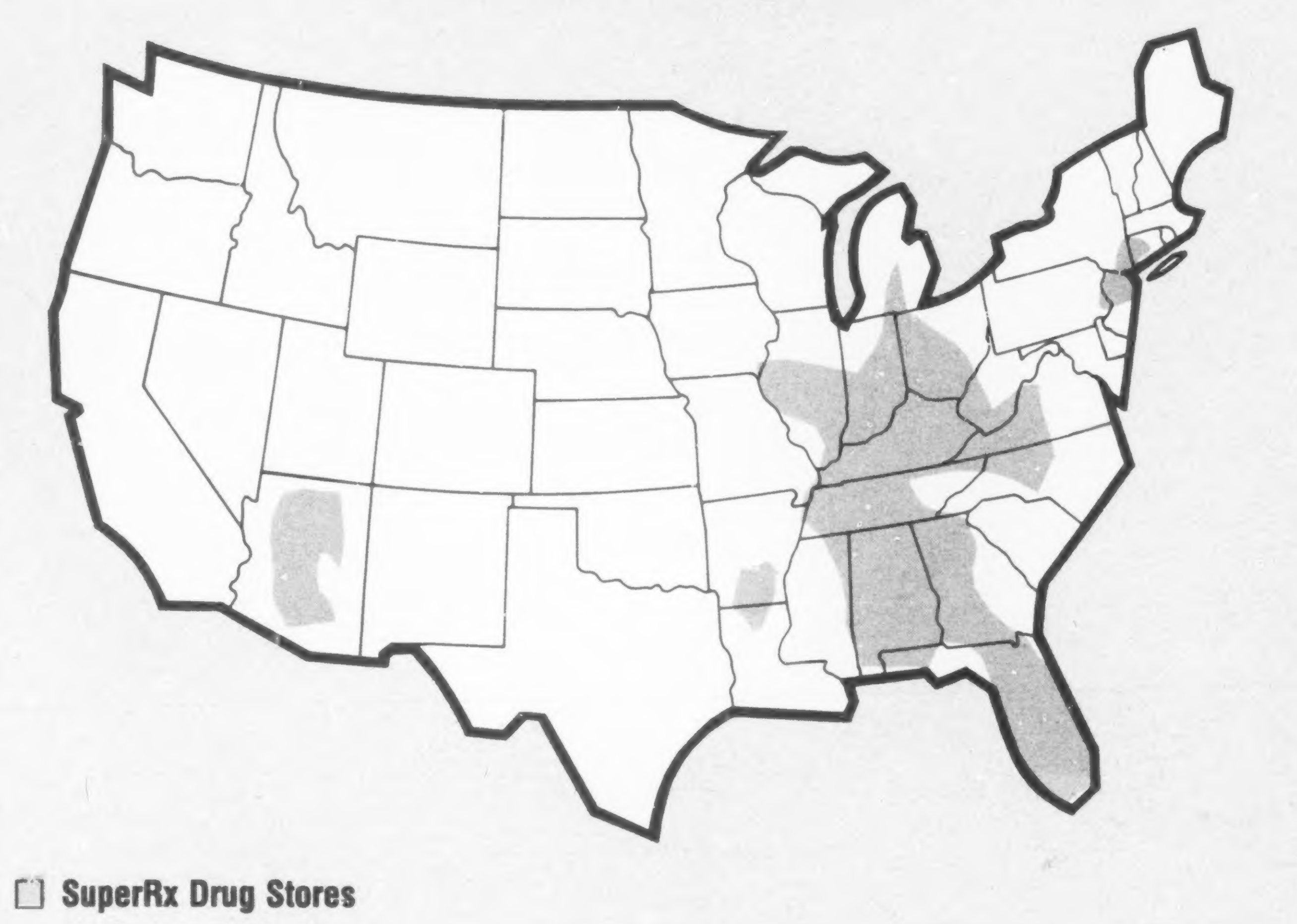
Under the direction of president and ceo Gerry Wolken, SupeRx has accelerated its store remodeling program, pumping nearly $21 million into store and facilities improvements last year. Just four years ago, the chain's annual capital outlay was $10.9 million.

SupeRx also moved closer to achieving another major goal in 1982: completion of a chainwide central distribution system. By the end of the year, SupeRx was putting the finishing touches on a new 381,000-sq.-ft. distribution center in Bluffton, Ind., the fourth such regional facility to service the chain's growing network of stores. The eight-acre building will supply drug, health and beauty aids and general merchandise products to nearly 200 SupeRx stores in the Midwest and Northeast, linking all but a handful of Phoenix-area stores into a central distribution system serviced by Peyton Inc., Kroger's Louisville-based nonfoods distribution subsidiary. The Bluffton facility will also supply similar merchandise to nearly 400 Kroger food stores in several North Central states.

MERCHANDISING. The basic components of SupeRx's refined marketing philosophy—quality, value and convenience—have helped the chain to capitalize on the public's growing awareness of the importance of personal health care, the company stated in its annual report.

To achieve this goal, SupeRx is using a 10,000-sq.-ft. prototype featuring cosmetics, H&BA, health foods, optical centers, greeting cards, reading centers and photo finishing, and, of course, the professional pharmacy counter. Private label products, many of which are produced by Kroger-owned manufacturing plants, are also becoming more and more common in SupeRx stores.

SuperRx's major markets: East Central and Southern states, Arizona and Florida



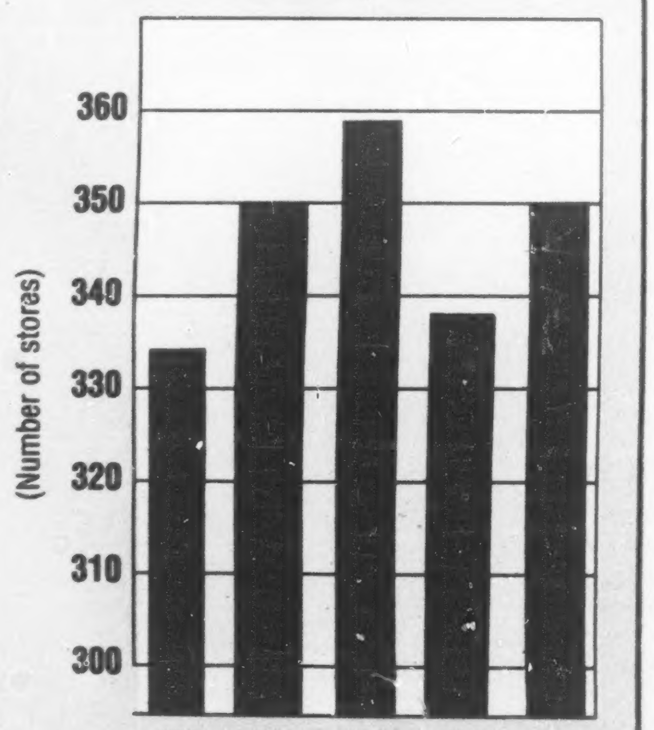
EXPANSION. Both expansion and remodeling continued at an accelerated pace during fiscal 1982. The chain opened or acquired 77 stores and remodeled 25 others in fiscal 1982, compared to 57 additions and 15 remodels in the prior year. The chain's 563 stores at year-end contained a total of 6.3 million sq. ft. of space. Chainwide sales per square foot average $114. Twenty-nine of the 77 stores added last year were from acquisitions of existing chains or portions of chains in Illinois, Ohio and Florida.

By the end of the year, SupeRx was operating six SuperX Food and Drug stores in Florida, and several more such combination stores were planned. Plans to open 64 additional stores during fiscal 1983 will put SupeRx's store count at roughly 600.

Margin gains hike Thrift earnings

RESULTS. Improved gross margins contributed to a substantial increase in 1982 operating profits for Pittsburgh-based Thrift Drug, a subsidiary of the J. C. Penney Company. Sales volume for the drug stores, which operate under the Thrift and Treasury Drug Center names, increased to $583 million last year from $507 million in 1981. Sales include revenue from the J. C. Catalog centers in the drug stores.

Store count rebounds after '81 dip



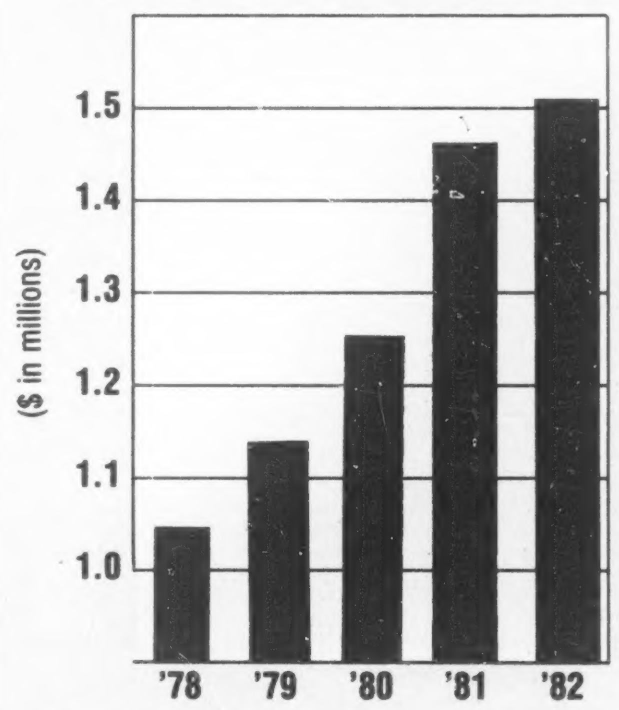
Source: Company reports

Drug store sales alone, without catalog center volume, increased to $485 million from $456 million the previous year. For all units, this was a 6.2% gain. On a comparative store basis (those open a year or more) the figure represented an 8.4% advance.

STORES. The number of drug stores increased by 10 last year to 354, 351 of which had pharmacy departments and 112 had catalog centers. During the year, 37 stores were opened or acquired and 27 were closed or sold off. The year saw an unusual move involving Eckerd Drug. Thrift sold 20 units in the Nashville/Knoxville markets to Eckerd, which concurrently sold 20 of its units in the Philadelphia/Camden area to Thrift. For both chains, the dual sales were part of an ongoing effort to increase penetration of existing markets and to abandon areas in which they do not have strength. The move did three things for the chains: reduced per store advertising costs, decreased distances from warehouses to stores and allowed both chains to tighten operations in existing markets. Average store size declined last year to 8,200 sq. ft. of selling space from 8,500 sq. ft.

SERVICE. Having completed virtual chainwide installation of its pharmacy computer system, Thrift continued to improve and update customer service. This service-oriented system, recently renamed "Rxtra," aids pharmacists by allowing them to fill scripts faster and more efficiently, and also provides customers with itemized records of prescription purchases for income tax records. The system also speeds reimbursement of third-party insurance claims.

Store sales steadily rise



Source: Company reports

As fiscal year 1982 closed, Thrift launched it Rxtra ad campaign to promote the chain's service theme. The Rxtra program is the new name for PHS (personalized health service). This computer system assists recordkeeping and provides drug compatability checks among other services. The campaign also includes senior citizen and little shaver discount programs, prescription warning labels, a guide to prescription prices, and double refills when script prices increase.

ON THE HORIZON. Plans for testing two different point-of-sale systems are in the works for 1983. After carefully observing supermarket technology equipment purchases this year, Thrift management believes POS, energy, security, and pharmacy computer are crucial to the future of drug chains. Thrift will be using IBM and a second supplier in its in-store POS tests in 1983.

UPGRADING. Early in 1982, Thrift expanded its newest warehouse from 140,000 to 280,000 sq. ft. while installing upgraded material handling, storage, and inventory control equipment.

Cosmetic departments throughout the chain continue to be improved upscaling fixtures and lighting, thereby increasing both esthetic appeal and profitability of the area.

Eckerd net margin slips to 3.4%

Eckerd Drug diversified into the growing home health care market last year with its Eckerd Med-Care centers.

RESULTS. For most drug chains, announcing results like those produced by Eckerd in fiscal 1982 would have been a cause for celebration. After all, the corporation went over the $2 billion mark in sales, had net income of $70.7 million and posted a very respectable net profit margin of 3.4%. But for the Jack Eckerd Corp., the results (except the $2 billion in sales) were a disappointment.

For one thing, net earnings were down 10% from the previous year's $78.5 million, and earnings per share declined 29¢ to $1.90. For another, Jack Eckerd's net profit margin, which had been substantially above 4% every year for the past decade, slipped more than a full percentage point.

What happened? Basically, four factors contributed to the disappointing results: an operating loss in Eckerd's American Home Video subsidiary, high interest costs, the depressed economy and a smaller than anticipated profit contribution from Eckerd Drug—the largest and most profitable subsidiary.

While Eckerd Drug's earnings set a record, they did not come up to expectations. The reasons were increased pressures on gross margins caused by excessive inventories after Christmas, expansion of sales and promotion activities, and greater pilferage.

Nevertheless, Eckerd Drug remained the country's No. 1 dispenser of prescriptions. The chain's prescription departments chalked up $442 million in sales, setting an industry record for the third year in a row.

Several changes were made to shore up the drug company's performance. Six divisional buying offices were consolidated into three regional offices in an effort to improve communications between buyers and suppliers and to increase inventory controls. Store layouts were revised and checkout counters rearranged in order to control traffic flow and tighten security.

For the first six months of fiscal 1983, corporate sales were $1.16 billion, an increase of 9.7%, but net profits were down 4.9% to $40.7 million. For Eckerd Drug, six month sales were $574.3 million vs. $528 million last year. Operating profit was up 5.5% to $53.5 million. Comparable store sales, for units in operation at least a year, increased 5.7%.

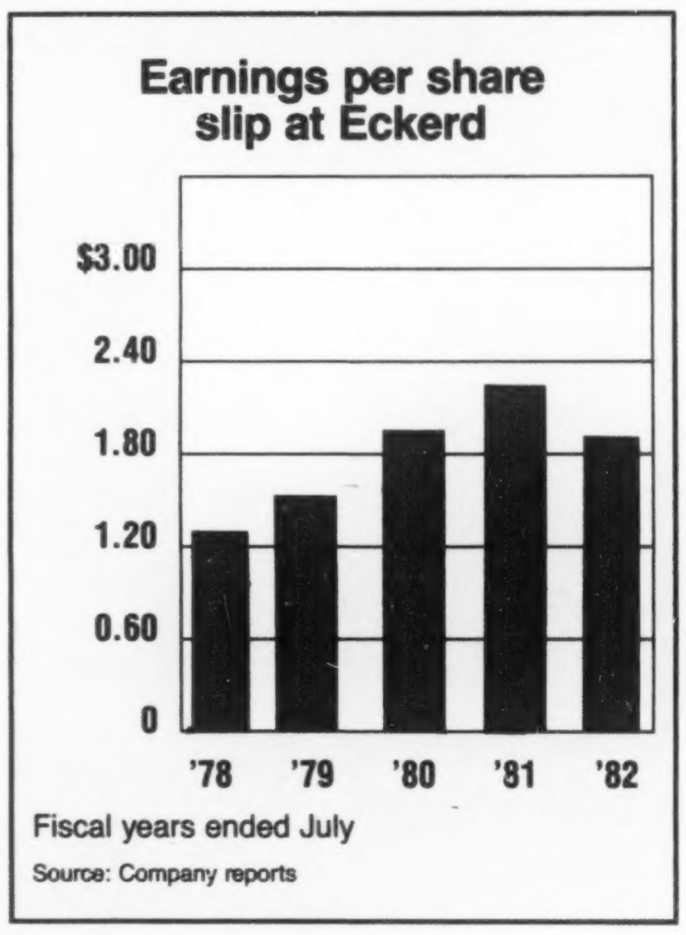
Overall, the company was encouraged by second quarter results because they were up despite sluggish Christmas seasonal sales.

EXPANSION. Eckerd Drug wound up the fiscal year with 1,238 stores, a gain of 103 units during the year. By the end of the first six months of 1983, the drug chain had increased its store count by 48 to 1,286. The company promised to continue to look for new locations, despite the fact that shopping center construction remains slow, and to search for acquisitions to continue the drug company's growth.

DIVERSIFICATION. Following the lead of other drug chains, Eckerd launched a new freestanding home health care center in St. Petersburg, Fla., an area with a major concentration of the heaviest users of home health care supplies and services—the elderly. The 5,600-sq.-ft. store, called Eckerd Med-Care, was the first of three to open near Eckerd's Clearwater headquarters. The stores, which do not have pharmacies, carry full lines of durable medical equipment, home health and sports medicine equipment and supplies and testing equipment. They also have personnel trained in ostomy and surgical fittings. Because of the importance of referrals in the business, company execs said they expected the store administrators to spend at least 50% of their time detailing local doctors, hospitals and senior citizen agencies. Chain execs also said the results of the experiment would be studied closely before making a decision on expansion.

TECHNOLOGY. Eckerd made healthy strides in the technology area last year. For one thing, the chain developed a sophisticated point-of-sale system in Florida designed to track individual sku movement in all of the Sunshine State's 350 stores through the use of a projectable sample of just 20 stores. Each store in the 20-store panel has been equipped with an alectronic cash register that can capture item-by-item movement through the use of a six-digit product identification code. The system will enable the chain to control inventory more precisely, update pricing accurately and quickly, and evaluate on a daily basis the impact of advertising and promotions.

The chain also introduced two new order entry systems, one involving a hand-held device with a wand scanner and the other a test of a three-way electronic purchase order designed to cut vendor delivery time, reduce store inventories and increase turnover. Under the second system, Eckerd transmits purchase orders at high speed from its in-house computer to an intermediary, General Electric's Information Services in Washington. There the order is translated by G.E.'s computer into the vendor's unique order format and is fed directly into that vendor's order-entry system.

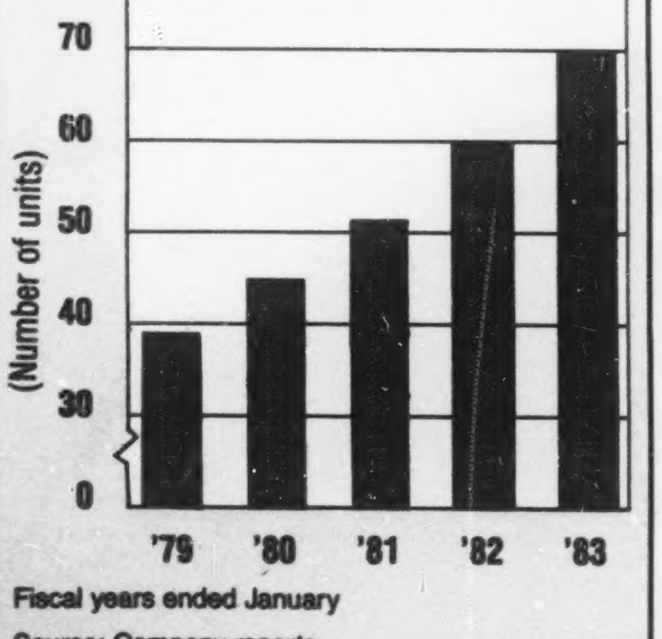


Earnings per share slip at Eckerd

Fiscal years ended July

Source: Company reports

American reports profits up 40%



American's growth strategy: Concentrate on combos

Fiscal years ended January

Source: Company reports

RESULTS. A major effort to close unprofitable stores—most of them Acme supermarkets in the East—and to hold the line on expenses led to a 40% increase in net profits for American Stores Company, which operates Skaggs drug stores and Rea and Derick drug stores as well as combination food/drug stores under the Skaggs/Alpha Beta and Alpha Beta logos. The earnings results where helped by a lower LIFO charge as inflation slowed.

The outstanding results followed hard on a previously successful fiscal year in which net earnings rose 25.2%. Profits for the fiscal year ended Jan. 29 came on sales of $7.5 billion, a 5.8% increase over the $7.1 billion reported for the previous year.

American stores also improved its net-to-sales ratio substantially in fiscal 1983, as profits increased more rapidly on a percentage basis than sales. Net profit margins for the chain of supermarkets, drug stores and combos increased to 1.2%, above the average for the supermarket industry, but substantially below that of the average drug chain company. In fiscal 1981, American's net profit margin was 0.9% and in the previous year it was 0.8%.

Earnings per share for the fiscal year increased 48.9% to $8.07 from $5.42 and 96.4% above the $4.11 per share for fiscal 1981.

EXPANSION. At the end of the year, American Stores was operating 1,027 retail food, drug and combination stores in 28 states, down from 1,122 outlets at the end of the previous year. Expansion was negligible except in the combination store area, which continues to be emphasized. During the year, American opened 10 combos to reach a total of 70. These stores range in size from 46,000 sq. ft. to 70,000 sq. ft. and feature a super drug store and a complete supermarket behind a bank of checkout counters. The marketing concept is keyed to one-stop shopping.

During the year, American also opened one drug store and two food stores and closed 57 food stores, the bulk of them Acme ·

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CHAIN STORE AGE
MERCHANDISER

Chains expand greeting card depts.—p. 2

DRUG STORE NEWS

Vol. 5 No. 12/Incorporating **CHAIN STORE AGE Drug Magazine** Published by Lebhar-Friedman Inc./May 30, 1983

CVS to shop West Coast for new units

NEW YORK—CVS "definitely" will seek to acquire West Coast drug stores to support the 16 units the Rhode Island-based chain already is operating in California, according to the president of CVS' parent company.

Francis C. Rooney, chairman and ceo of the Melville Corp., which owns CVS, made public the strategy at a recent meeting of the New York Society of Security Analysts.

Alluding to the possibility of expanding into other regions of the country in addition to the West Coast, Rooney said, "Obviously we're going to have to build on a regional kind of business out there and someday you could visualize another regional thing, possibly in the Middle West.

Drug units require nearby warehousing

"I don't think you can take CVS as we know it and just spread it as you can many of our other [Melville] divisions. It's not as easy as that because we need to be relatively close to the warehousing operation," Rooney said.

During the meeting Melville president, Kenneth K. Berland unveiled some of CVS's store expansion plans for the remainder of the year. Berland said the chain will open 50 new stores in 1983 and close 10, which would bring the chain's total to 506 stores. In 1982, CVS opened 45 stores, closed 12 for a total of 466 stores by year-end.

Berland said the chain would continue to expand at current rate over the next five years. He

Continued on page 44

24 kt gala marks NACDS' 50th yr.

Food- and music-filled tents dotted the fields of the Gunston Hall Plantation during an old-fashioned festival.

New NACDS chairman Henry Panasci Jr., and wife Fay, greet their upstate New York Congressional representative George C. Wortley and wife Barbara, and 50th Anniversary committee chairman Sheldon "Bud" Fantle and wife Gerry.

WASHINGTON—Praise is still being heaped on the National Association of Chain Drug Stores, Bob Bolger and his staff and a corps of volunteer workers for their efforts in organizing the association's 50th anniversary celebration—a gala, four-day extravaganza highlighted by visits to the Kennedy Center, the National Art Gallery, and a restored Southern plantation, as well as informative political addresses and social commentaries by a variety of top-flight speakers.

More than 2,000 members, associates and friends gathered at Washington, D.C.'s Hilton Hotel May 8-11 to fete the association on its 50th birthday. Shuttled to the Kennedy Center, attendees were entertained by Rudolf Nureyev in a special performance of Don Quixote. At the National Art Gallery, they enjoyed refreshments and music courtesy of Johnson Wax, before touring a special heldover exhibit of Raphael paintings. And in true Southern style, celebrants danced, ate and frolicked their way through an old-fashioned plantation festival, hosted by NACDS at Gunston Hall, a restored plantation home.

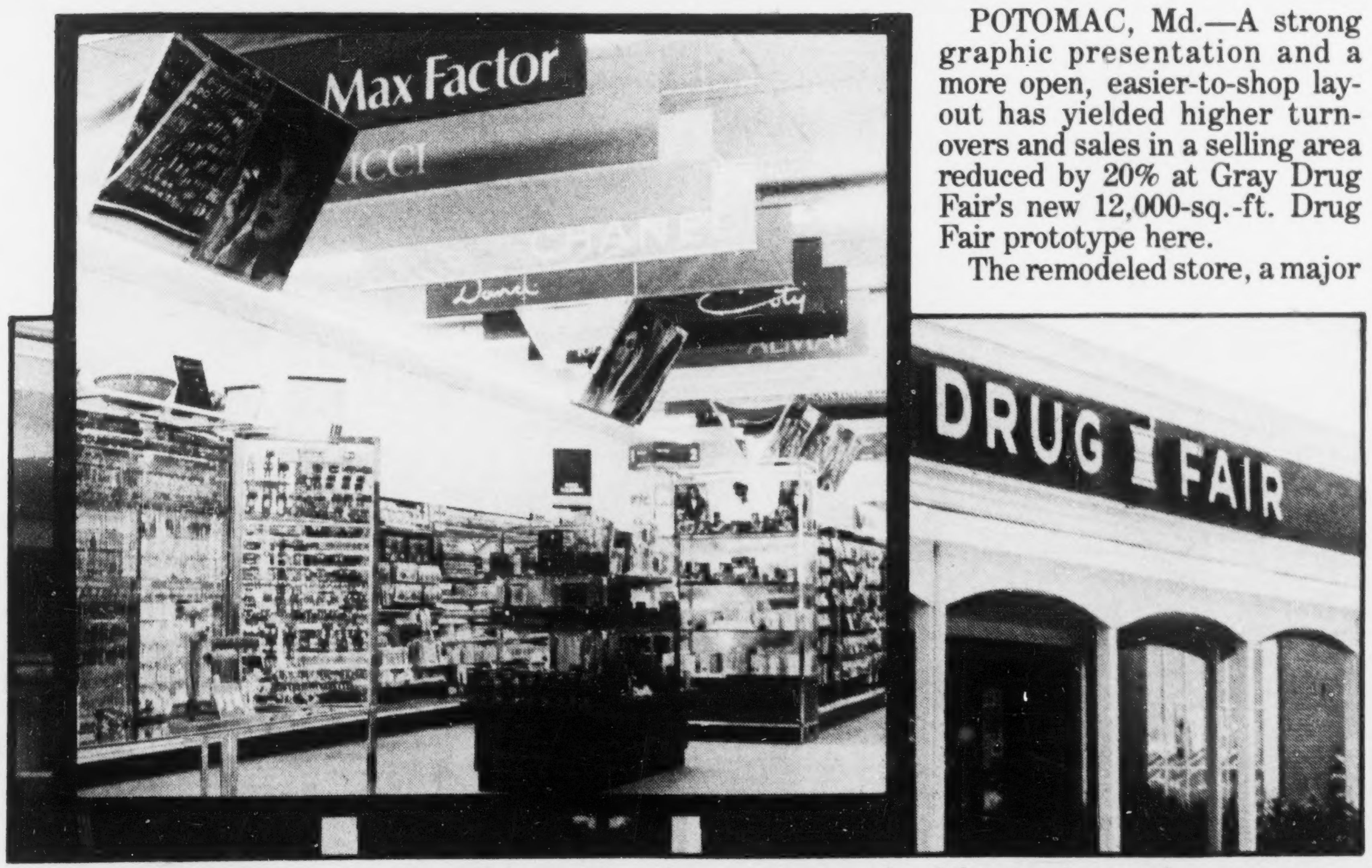
On a more serious note, attendees gathered each morning to hear addresses by a variety of keynote speakers, including First Lady Nancy Reagan, Henry Kissinger, presidential advisor, Edwin Meese III, political columnist William Safire, and broadcasters Barbara Walters, Tom Brokaw and Howard K. Smith.

Leonard Genovese, left, and Bob Long, center, chat.

Roger Friedman, president of Lebhar-Friedman, parent company of *Drug Store News*, accepts special award from NACDS chairman Sidney Dworkin in recognition of Lebhar-Friedman's role in the founding of NACDS.

Exiting NACDS chairman Sidney Dworkin turns over the podium to incoming chairman Henry Panasci Jr., on the final day of the annual meeting.

Gray's new Drug Fair prototype cuts space, ups turns



The cosmetics department at Drug Fair prototype is a prime example of the store's upscale appearance.

POTOMAC, Md.—A strong graphic presentation and a more open, easier-to-shop layout has yielded higher turnovers and sales in a selling area reduced by 20% at Gray Drug Fair's new 12,000-sq.-ft. Drug Fair prototype here.

The remodeled store, a major attraction on a tour for executives in town for the NACDS 50th Anniversary celebration, has a merchandise mix aimed at attracting the upscale shoppers who live in this affluent suburb a half hour to the northwest of the nation's capital.

The cosmetics department, for example, features such fragrance lines as Madame Rochas, Oscar de La Renta, Estee Lauder, Givency, Halston and Tatiana.

The remodeling and upgrading of the Potomac store is part of an ongoing effort by Cleveland-based Gray Drug Fair to increase Drug Fair's market share in the Atlantic region by making the stores uncluttered and "easier to shop," in the words of president and general manager Alvin Towle. Last year, Drug Fair's market share inched up a percentage point to 24%, compared to People's 26% and Dart's 22%.

Continued on page 44

LATE NEWS

AKRON, Ohio—Rite Aid continued its westward march through Ohio with the acquisition of the six-store Family Drug Stores chain.

Last year, Rite Aid acquired three Ohio chains: the 16-store Lomark chain in Hamilton, the five-store Cochran store in Columbus and the three-store Kenwood chain in Toledo. In addition to the 16 traditional Lomark drug stores, three deep discount Drug Palace stores were acquired in that purchase.

By acquiring Family Drug Stores, Rite Aid has boosted its Akron area store count to eight. The acquisition was in keeping with Rite Aid's practice of acquiring chains with stores approximating the size of its 6,500 -sq. ft. prototype.

The stores will be remerchandised and laid out according to Rite Aid's planograms.

— News in brief —

Walgreens April sales up 13.6%

DEERFIELD, Ill.—Walgreens' April sales were $191.7 million, a 13.6% increase from $168.7 million for the same month in April.

Sales for calendar year 1983 to date were $747.6 million, up 16.9% for 1982.

The chain was operating 998 stores on April 30, up from 927 a year ago.

Gray buys Medco stores

HOLLYWOOD, Fla.—Gray Drug Fair has acquired for an undisclosed amount nine former Medco Drug Stores in Broward, Dade and Palm Beach counties of Southeastern Florida.

The nine-store acquisition boosts Gray's store count in Gray's Southern region to 54 units, and along with two recent acquisitions (12 stores) in its mid-Atlantic region, pushes its total store count to 402 units. The Medco stores range from 4,000 to 8,600 sq. ft., and last year reported estimated sales of $8.5 million.

Malone & Hyde sets dividend

MEMPHIS—Malone & Hyde will pay a regular quarterly cash dividend of 19¢ per share payable July 15 to shareholders of record on June 22.

In another matter, the board of directors elected Bob Harris as vp of the wholesale food division. Harris had been with Wetterau Inc., for 18 years and most recently served as president of the food distribution group.

TRAK AUTO
NOW OPEN
NOW OPEN

Ten Trak Autos open in Calif.

LOS ANGELES—Trak Auto West, the Thrifty Drug-Dart Drug partnership, has opened its first 10 stores in California. A total of 40 will be onstream by the end of this year, according to Thrifty.

All but one of the first 10 stores are located adjacent to a Thrifty Drug store. The advantage of next-door location is that the space for Trak can often be carved out of an existing Thrifty within the leased footage.

The first units are in Los Angeles, La Mirada, Duarte, Paramount, Northridge, Montebello and Pico Rivera. All are in southern California.

Trak is a 6,000-sq.-ft. discount auto supply store whose promotional banner reads: "every auto part, every day, just above wholesale. Save 35% to 51%."

Except for limited space for hard parts stock, the entire footage of the store is selling area. Store hours are 9 a.m. to 9 p.m., Monday through Friday; 8 a.m. to 9 p.m. on Saturday, and 10 a.m. to 6 p.m. on Sunday.

To service the stores, Trak Auto has leased a 143,000-sq.-ft. warehouse in the City of Commerce, a few miles from Los Angeles City center.

Trak is Thrifty's second venture with Dart Drug. The first was Crown Books. Currently, Thrifty operates more than 100 Crown Book stores.

Dart, based in Landover, Md., operates Crown Book stores and Trak Auto units in the Washington, D.C. area.

Nostalgia Quiz #25 winner chosen

Joe Tarantino of K mart in Naperville, Ill., is the winner of $100 in *Drug Store News'* Nostalgia Quiz #25, the last in a year-long series of quizzes marking the 25th Anniversary Celebration of NACDS. The grand prize winner will be announced in the next issue, June 13.

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Vol. 5, No. 12 May 30, 1983

Dart reveals spin-off plan for Crown Books division

LANDOVER, Md.—Dart Drug's president Robert M. Haft said the chain has begun preliminary negotiations to spin off its Crown Books division.

Ownership in the 120-store book chain is evenly divided between Dart and the Los Angeles-based Thrifty Drug.

Although no prospectus has been printed, analysts said Dart appears to be attempting to increase the value of its stock in the same way it did earlier this year by spinning off 19% of its ownership in Trak.

After the Trak prospectus became public in April, the price of Dart's stock increased from the mid-30's to more than 100 by mid-May.

Trak went public at $20 per share and was trading at $40 by mid-May. That increase also boosted the value of Dart, which retained 71% ownership in Trak, a chain of auto parts stores.

"Spinning off Crown is logical after Trak," said Daniel Barry, vp and sr. research analyst with Kidder Peabody & Co. "The value of Dart stock was enhanced when they spun off Trak. People weren't putting proper value on the company until them."

Analysts speculated Crown may have reached the point where the stores, independent of Dart, are mature enough to generate increases in net earnings.

Robert I. Roth, an analyst with Merrill Lynch said, "This way Dart will attract attention to different parts of the company. Without the spinning off of Trak, earnings from Trak could have gotten lost."

Proceeds of Fay's stock offering slated for remodeling, acquisitions

SYRACUSE—The opening and remodeling of stores and facilities, as well as the acquisition of existing drug stores or drug store chains, have been targeted for proceeds of a proposed offering of 1.3 million shares of common stock, Fay's chairman Henry A. Panasci Jr., told shareholders gathered here for the chain's annual meeting.

"Because we are in registration, I am constrained from forecasting or expressing opinions on our prospects," Panasci said about the offering, which on the date of the annual meeting was not yet effective.

"However, it is a fact that we have momentum—and as we enter our 25th anniversary year every aspect of our business is sounder than ever before in our history."

That momentum, launched last year in what was Fay's most productive year ever, continued unabated during the first quarter ended April 30.

Fay's reported net earnings increased to $813,900, or 14¢ per share, on revenues of $68.5 million, compared to earnings of $633,100, or 11¢ per share, on sales of $59.4 million in the comparable period one year ago. (All per share figures reflect the 10% stock dividend paid in August 1982 and the 2-for-1 split distributed in January.)

Results in the typically slow first quarters were enhanced by an intensified TV advertising campaign and the in-store promotion of fine silver and flatware—part of the chain's eight-month-long 25th anniversary celebration, a spokesman said.

That celebration, which revolves around the theme "It's only the beginning," was kicked off in March.

Panasci said the 7¢ per share dividend approved at the company's May 13 Board of Directors meeting was in recognition of Fay's continuing progress. The 1.3 million shares in the proposed public offering include 300,000 shares being sold by certain shareholders, primarily Panasci, who is offering 175,000 of his 1.7 million shares.

Fay's has announced plans for the opening of nine to 12 new stores during the current fiscal year.

Most of the openings are projected for communities within a 250-mile radius of Fay's Liverpool, N.Y., headquarters.

'Hook's the One' ads airborne

THE ONE!
FOR YOU
Hook's
IANAPOLIS
rriott Inn

With first quarter earnings up 347%, the mood was upbeat at Hook's annual meeting held at the Indianapolis Marriott. Here, president and chairman J. Douglas Reeves greets John Voliva. Voliva is Bud Hook's grandson.

INDIANAPOLIS—Capitalizing on its dominance in the state of Indiana, Hook Drug has launched a new advertising campaign called "Hook's The One." Commercials featuring this message were shown to shareholders at the chain's recent annual meeting.

"We continue to emphasize building profitable traffic in all our stores," J. Douglas Reeves, chairman and president, told the group, "and one of the efforts [the ad campaign] in this area is depicted in this room today."

The theme is an extension of Hook's previous slogan—"Let Us Be The One." The new ads have been running about eight weeks and the chain is "quite pleased with the reaction," Reeves reported. The message is used in all Hook advertising including television, radio, print and in-store display materials.

Tom Cunningham, vp advertising, told *Drug Store News* the old theme had been used for five years and it was time for a new twist. "Even the best advertising campaigns lose their ability to capture consumer attention," he said.

The new slogan urges shoppers to consider Hook's for all their needs, Reeves pointed out. Various departments, such as cosmetics, film processing and prescriptions are being highlighted during the campaign.

Pharmacy accounts for 32% of Hook's business. By concentrating on building the Rx business Hook's achieved a 20% leap in script sales during 1982. For 1983, Hook's has formed a pharmacy productivity task force to ensure better service. Also, the chain has accelerated the pace of installing pharmacy terminals; currently 37 of the 272 drug stores have terminals.

Emphasis on promotion and efforts to improve operations at Hook's were remedies enacted last year when Hook's profits fell into a slump. In fiscal 1981, earnings dropped 20% and in the first quarter of 1982, earnings lagged 56% below those for the year before. At that time, Reeves called for stronger promotional and advertising programs.

The rest of the year showed some recovery and Hook's managed to squeeze a 13% jump in earnings and a 9% increase in sales. Earnings reached $6.6 million on sales of $285.2 million. And, in the first quarter of 1983, earnings rose 347% ahead of last year.

Reeves took time at the recent meeting to thank employees and shareholders for "sticking with us and contributing to this accomplishment.

"You could have—in good conscience"—contributed to the problem by demanding instant fixes. But instead you understood, our board understood and our employees understood and cooperated."

Reeves told the group that Hook's goals may seem "unexciting" because they don't include bold new moves or sweeping new ventures. He did, however, promise new basic drug and convalescent aid stores. Last year 13 drug stores and three convalescent aid centers were opened. This year, about 20 new drug stores will be opened and five new convalescent centers.

Reeves did not have projections for the year 1983. While he feels Indiana will continue to have economic difficulties, he does feel actions taken by Hook's will help improve the chain's situation.

PHARMACY

Drug Fair re-emphasizes compounding service

BRANCHBERG, N.J.—Compounding prescriptions is a practice that many retail pharmacies have de-emphasized over the years, but that may change if results achieved by Drug Fair of New Jersey continue to prove successful.

As part of its detailing program, the chain began promoting pharmacists' willingness to compound scripts. Dermatologists were targeted as the medical specialty group most interested in the program.

In addition to promoting compounded scripts to derms, pharmacists from the 21-store chain also actively detail other doctors. As a result, physicians readily become familiar with the chain's promoted benefits.

Pharmacist Bill Cramer prepares a compounded prescription at Drug Fair of New Jersey's Westfield store.

"In addition to compounding, we also emphasize our computer system and its patient advantages," says George Bizink, the firm's buyer of drugs and pharmaceuticals. "And we advise doctors that patients should have their medication records accessible from one source."

The central New Jersey-based chain prides itself on high levels of productivity and customer satisfaction as a result of its emphasis on computers.

"We inform physicians that we frequently can fill patients' scripts in as little as 10 minutes," notes Bizink.

The compounding program is detailed for all the chain's pharmacies, but it pays added dividends for newly opened outlets. Physician detailing represents an easy, relatively inexpensive way to build prescription volume, create physician goodwill, and build customer satisfaction.

In one newly opened pharmacy, 30% of all new scripts were written by dermatologists.

A different variation of the same theme works in busy older pharmacies where compounding scripts can at times impede work flow. Pharmacists

Continued on page 11

Inderal tops list of 100 most prescribed drugs

NEW YORK—Ayerst's Inderal topped the 1982 list, accounting for more prescription sales than any other drug product.

Lanoxin, Dyazide, Valium and Tylenol (with codeine) ranked two through five, in that order, for combined new and refill prescriptions sold during the year.

Pharmaceutical Data Services, (PDS) a subsidiary of Foremost-McKesson, tracks the pharmaceutical industry and has provided this top 100 list. Other industry sources have recapped fourth quarter action and made some predictions by drug category for business in 1983.

Antibiotic products (except tetracyclines) showed a 10% rise in prescription volume in the fourth quarter of 1982. Within this category, oral cephalosporin prescriptions rose 14% and semi-synthetic penicillins (ampicillins and amoxicillins) gained 13% in prescription volume during the same period.

Fourth quarter prescriptions for ethical analgesics were up 7% in 1982. In this group, nonnarcotics gained 12% in script volume while the narcotic analgesics rose 5%. Codeine-based products showed only a 3% gain in fourth quarter prescriptions over 1981, yet the propoxyphene group was up 7%.

Another leading prescription category, antiarthritics, recorded a 10% rise in fourth quarter prescriptions over the same period in 1981. Notably affecting this group was the introduction of piroxicam and the withdrawl of benoxaprofen (Oraflex).

For 1983, industry sources see this category as a mover. New product introductions are expected from Warner-Lambert (Maxicam), Merck (Osmosin—a new, safer slow release indomethacin), and SmithKline (Ridaura—an oral gold preparation).

Cardiovascular drugs registered a 10% gain in fourth quarter prescriptions in 1982, ending with total 1982 business of $10 million. Industry projections earmarked the heart drugs for growth to a $25 million category by 1990.

New indications for established drugs and more extensive use of the beta blockers should account for this growth.

1982 top 100 drug products by total number of scripts

1. Inderal (Ayerst)
2. Lanoxin (BW)
3. Dyazide (SKF)
4. Valium (Roche)
5. Tylenol (McNeil)
6. Lasix (Hoechst)
7. Tagamet (SKF)
8. Motrin (Upjohn)
9. Ortho Novum (Ortho)
10. Keflex (Dista)
11. Aldomet (MSD)
12. Amoxil (Beecham)
13. Slow-K (Ciba)
14. Darvocet-N (Lilly)
15. Dalmane (Roche)
16. Dilantin (Parke Davis)
17. Premarin (Ayerst)
18. Dimetapp (Robins)
19. Synthroid (Flint)
20. E.E.S. (Abbott)
21. Naprosyn (Syntex)
22. Benadryl (Parke Davis)
23. Ativan (Wyeth)
24. Indocin (MSD)
25. Zomax (McNeil)
26. Lopressor (Geigy)
27. Actifed (BW)
28. Diabinese (Pfizer)
29. Theo-Dur (Key)
30. Lo/Ovral (Wyeth)
31. Isordil (Ives)
32. Hygroton (USV)
33. Empirin w/Codeine (BW)
34. Tranxene (Abbott)
35. Clinoril (MSD)
36. Hydrodiuril (MSD)
37. Omnipen (Wyeth)
38. E-Mycin (Upjohn)
39. Percodan (DuPont)
40. V-Cillin K (Lilly)
41. Persantine (Boehringer)
42. Monistat (Ortho)
43. Donnatal (Robins)
44. Zyloprim (BW)
45. Mellaril (Sandoz)
46. Norinyl (Syntex)
47. Timoptic (MSD)
48. Thyroid (Armour)
49. Aldoril (MSD)
50. Minipress (Pfizer)
51. Ovral (Wyeth)
52. Fiorinal (Sandoz)
53. Pen Vee K (Wyeth)
54. Bactrim DS (Roche)
55. Drixoral (Schering)
56. Elavil (MSD)
57. Corgard (Squibb)
58. Achromycin V (Lederle)
59. Atarax (Roerig)
60. Ceclor (Lilly)
61. Septra DS (BW)
62. Phenobarbital (Lilly)
63. Triavil (MSD)
64. Antivert (Roerig)
65. Naldecon (Bristol)
66. Feldene (Pfizer)
67. Librium (Roche)
68. Sinequan (Roerig)
69. Lomotil (Searle)
70. Coumadin (DuPont)
71. Vibramycin (Pfizer)
72. Mycolog (Squibb)
73. Catapres (Boehringer)
74. Restoril (Sandoz)
75. Procardia (Pfizer)
76. Tenormin (Stuart)
77. Librax (Roche)
78. Aldactazide (Searle)
79. Alupent (Boehringer)
80. Nitrostat (Parke Davis)
81. Pfizerpen VK (Pfipharmecs)
82. Brethine (Geigy)
83. Amcill (Parke Davis)
84. Tolinase (Upjohn)
85. Ornade (SKF)
86. Apresoline (Ciba)
87. Cortisporin (BW)
88. Macrodantin (Norwich)
89. Synalgos-DC (Ives)
90. Nitro-Bid (Marion)
91. Nalfon (Dista)
92. Flexeril (MSD)
93. Phenergan w/Codeine (Wyeth)
94. Wymox (Wyeth)
95. Esidrix (Ciba)
96. Deltasone (Upjohn)
97. Sumycin (Squibb)
98. Ser-Ap-Es (Ciba)
99. Valisone (Schering)
100. Septra (BW)

Medicaid curbs seem to hike hospital, nursing costs

Joseph Caputo, RPh
Pharmaceutical Editor

The facts are in—state Medicaid formulary restrictions don't save the public money. In fact, costs are shifted to more expensive hospital and nursing home care.

It's often stated that elimination of selected drug products from state Medicaid formularies is counterproductive. And this is backed up by a number of studies.

The Jacobs, Meyerhoff and Sudovar study (1983) compared the health care costs in two states—Louisiana—a state with a restricted formulary—and Texas—where the formulary remains unrestricted. Although 96% of the study group continued to receive prescription benefits during 1977, the number of total scripts per person declined 22% from 22.5 to 17.6. This decline was associated with a 20% increase in hospitalization, from 10.8% of the group to 13%. And hospitalization increased from 0.88 days per person in 1976 to 1.08 in 1977 (up 23%). Nursing home use by the group under study also increased from 12.8 days per person in 1976 to 13.6 days per person in 1977, or a 6% increase.

The Hefner study published in 1980 reported total expenditure increases in Louisiana of $23.69 per Medicaid recipient following formulary changes, while the increase in Texas for a similar period (six months of 1976 and 1977) was $4.08.

The 1979 Hefner study indicated formulary closure increased costs for nonpharmaceutical services. His theory proved correct in Louisiana where formulary closure was associated with increased demand for other health services. This produced a net increase of over 7% in total Medicaid expenditures, according to the study.

Sudovar & Rein compared Medicaid expenditures in Texas and California. California's closed formulary resulted in administrative expenditures 3½ times as great as costs associated with the Texas program.

The 1974 Taubman study analyzed Medicaid expenditure data in 27 states and concluded that states with restrictive formularies registered the highest per capita pharmaceutical expenditures.

In 1972 the Hammel study discovered that closed formulary states spent more in total expenditures, and more on a per capita basis for medical care than open formulary states.

As expected, the number of prescriptions written for Medicaid patients declined sustantially after formulary restrictions. Money is saved on the prescription portion of the program but as surveys indicate, costs associated with the use of nursing homes and hospitals rise.

In addition Medicaid patients tend to remain in these institutions for extended periods of time.

So states don't save on expenses by limiting or closing a formulary. Rather costs are shifted to a different point in the health care distribution system.

The net result of this cost shift is added taxes to the public plus a lot of inconvenience to patients.

Retail pharmacies take it on the chin, too, because popular drug categories are often cut back or eliminated when formularies are restricted.

When categories like anorexics, antacids, anti-anemia preps, cough and cold products, digestive aids, minor tranquilizers and vitamins are cut from a formulary, buying patterns are destroyed.

So in the long run, shifts toward closed formularies may prove detrimental to a state's tax program. Patients are shifted from tax-paying retailers to tax-free institutions like nonprofit hospitals.

While on the surface it appears that states save money by limiting or closing formularies, these savings don't accrue if patients are shifted to more expensive components of the health care system. When this happens patient services often cost more and the state makes it more difficult for tax-paying businesses to survive.